

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>CITY OF HANCOCK</b>	County <b>HOUGHTON</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>10/18/05</b>	Date Accountant Report Submitted to State: <b>12/8/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

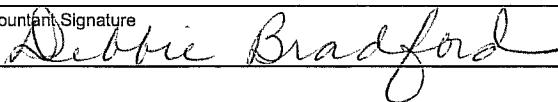
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>BRUCE A. RUKKILA, CPA, PC</b>			
Street Address <b>310 SHELDEN AVENUE</b>		City <b>HOUGHTON</b>	State <b>MI</b>
		ZIP <b>49931</b>	
Accountant Signature 			Date <b>12/8/05</b>

**CITY OF HANCOCK**  
**HOUGHTON COUNTY, MICHIGAN**  
**FINANCIAL STATEMENTS WITH**  
**SUPPLEMENTAL INFORMATION**

**June 30, 2005**

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council  
City of Hancock  
Hancock, Michigan

We have audited the accompanying general purpose financial statements of the City of Hancock as of June 30, 2005, and for the year then ended. These general purpose financial statements are the responsibility of the City of Hancock's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The City has not adopted the reporting format of Government Accounting Standards Board Statement No. 34.

In our opinion, except for the effects on the general purpose financial statements of the omission described in the preceding paragraph, the dollar amount of which we have not determined, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Hancock, as of June 30, 2005, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2005 on our consideration of the City of Hancock's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the City of Hancock, taken as a whole. The combining and individual fund financial statements listed in the table of contents are presented as supplemental information and are not a required part of the general purpose financial statements of the City of Hancock. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, except for the effects on the financial statements of the omissions described previously, the dollar amount of which we have not determined, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

*Bruce A. Rukhila, CPA, PC*

Certified Public Accountants

October 18, 2005



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Members of the City Council  
City of Hancock  
Hancock, Michigan

We have audited the financial statements of the City of Hancock as of and for the year ended June 30, 2005, and have issued our report thereon dated October 18, 2005. We conducted our audit in accordance with auditing standards and the standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City of Hancock's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Hancock's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Bruce A. Rukkila, CPA, PC*

October 18, 2005

Certified Public Accountants



**CITY OF HANCOCK**  
**COMBINED BALANCE SHEETS**  
**ALL FUND TYPES AND ACCOUNT GROUPS**  
**June 30, 2005**

	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
<b>ASSETS AND OTHER DEBITS:</b>						
Cash and equivalents:						
Unrestricted	\$ 93,598	\$ 87,060	\$ -	\$ 19,676	\$ 75,185	\$ 28,685
Restricted	66,715	-	1,732	-	86,300	5,535
Investments:						
Unrestricted	35,753	-	-	-	42,183	-
Restricted	-	-	-	-	177,794	-
Receivables:						
Delinquent taxes	3,878	45	-	-	-	-
Service customers	14,595	-	-	-	99,655	-
Other	27,784	-	-	-	4,038	24,658
Due from other funds	319,575	50,641	-	-	-	393,249
Inventory	21,456	-	-	-	79,675	13,354
Prepaid expenses	36,036	-	-	-	2,251	69,027
Note receivable	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	11,589,182	1,832,614
Accumulated depreciation & amortization	-	-	-	-	(7,506,549)	(1,539,384)
Due from other governmental units	92,892	88,976	-	-	-	-
Amount to be provided for general long term debt	-	-	-	-	-	-
<b>TOTAL ASSETS AND OTHER DEBITS</b>	<b>\$ 712,282</b>	<b>\$ 226,722</b>	<b>\$ 1,732</b>	<b>\$ 19,676</b>	<b>\$ 4,649,714</b>	<b>\$ 827,738</b>
<b>LIABILITIES:</b>						
Accounts payable	\$ 53,605	\$ 7,365	\$ -	\$ -	\$ 14,983	\$ 19,274
Accrued expenses	34,374	5,820	-	-	12,021	166,628
Due to other funds	79,949	191,019	-	-	492,497	-
Due to other governmental units	-	-	-	-	71,931	-
Current maturities on long term debt	-	-	-	-	26,000	72,227
Notes payable	-	-	-	-	-	189,699
General obligation bonds	-	-	-	-	-	-
Revenue bonds payable	-	-	-	-	1,694,562	-
<b>TOTAL LIABILITIES</b>	<b>167,928</b>	<b>204,204</b>	<b>-</b>	<b>-</b>	<b>2,311,994</b>	<b>447,828</b>
<b>FUND EQUITY AND OTHER CREDITS:</b>						
Contributed capital	-	-	-	-	1,916,674	-
Fund balance:						
Investment in general fixed assets	-	-	-	-	-	-
Designated	-	492	-	-	-	-
Reserved	-	-	1,732	-	-	-
Unreserved	544,354	22,026	-	19,676	-	-
Retained earnings	-	-	-	-	421,046	379,910
<b>TOTAL FUND EQUITY AND OTHER CREDITS</b>	<b>544,354</b>	<b>22,518</b>	<b>1,732</b>	<b>19,676</b>	<b>2,337,720</b>	<b>379,910</b>
<b>TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS</b>	<b>\$ 712,282</b>	<b>\$ 226,722</b>	<b>\$ 1,732</b>	<b>\$ 19,676</b>	<b>\$ 4,649,714</b>	<b>\$ 827,738</b>

The accompanying notes to financial statements are an integral part of this statement.

Fiduciary Fund Type	Account Groups		Component Units	Totals (Memorandum Only)	
	General Fixed Assets	General Long-Term Obligations		2005	2004
Trust and Agency					
\$ 70,418	\$ -	\$ -	\$ 374,622	\$ 58,901	\$ 433,523
-	-	-	160,282	-	160,282
-	-	-	77,936	-	77,936
83,900	-	-	261,694	-	261,694
-	-	-	3,923	-	3,923
-	-	-	114,250	-	114,250
-	-	-	56,480	-	56,480
-	-	-	763,465	-	763,465
-	-	-	114,485	-	114,485
-	-	-	107,314	-	107,314
-	-	-	-	18,500	18,500
-	3,881,004	-	17,302,800	114,287	17,417,087
-	-	-	(9,045,933)	-	(9,045,933)
-	-	-	181,868	-	181,868
-	-	1,618,416	1,618,416	-	1,618,416
\$ 154,318	\$ 3,881,004	\$ 1,618,416	\$12,091,602	\$ 191,688	\$12,283,290
\$ 352	\$ -	\$ -	\$ 95,579	\$ 2,000	\$ 97,579
-	-	180,941	399,784	-	399,784
-	-	-	763,465	-	763,465
1,614	-	-	73,545	-	73,545
-	-	-	98,227	-	98,227
-	-	-	189,699	-	189,699
-	-	1,437,475	1,437,475	-	1,437,475
-	-	-	1,694,562	-	1,694,562
1,966	-	1,618,416	4,752,336	2,000	4,754,336
-	-	-	1,916,674	-	1,916,674
-	3,881,004	-	3,881,004	-	3,881,004
-	-	-	492	-	492
152,352	-	-	154,084	-	154,084
-	-	-	586,056	189,688	775,744
-	-	-	800,956	-	800,956
152,352	3,881,004	-	7,339,266	189,688	7,528,954
\$ 154,318	\$ 3,881,004	\$ 1,618,416	\$12,091,602	\$ 191,688	\$12,283,290

## Year Ended June 30, 2005

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF HANCOCK**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL, SPECIAL REVENUE, DEBT SERVICE, AND CAPITAL PROJECTS FUNDS**  
**Year Ended June 30, 2005**

	General			Special Revenue		
	Budget	Actual	Variance- Favorable (Unfavorable)	Budget	Actual	Variance- Favorable (Unfavorable)
REVENUES:						
Taxes	\$ 889,120	\$ 841,460	\$ (47,660)	\$ 89,070	\$ 104,096	\$ 15,026
State and federal	505,162	493,568	(11,594)	605,279	673,128	67,849
Federal Grant	-	-	-	-	360,000	360,000
Service fee revenue	360,578	341,883	(18,695)	-	-	-
Fines, forfeitures and penalties	-	2,310	2,310	-	-	-
Interest revenue	-	-	-	1,392	836	(556)
Rentals	16,069	14,881	(1,188)	-	-	-
Other revenue	40,523	36,846	(3,677)	106,902	20,881	(86,021)
<b>TOTAL REVENUES</b>	<b>1,811,452</b>	<b>1,730,948</b>	<b>(80,504)</b>	<b>802,643</b>	<b>1,158,941</b>	<b>356,298</b>
EXPENDITURES:						
General government administration	351,168	317,331	33,837	43,232	58,094	(14,862)
Public safety	612,759	637,377	(24,618)	-	-	-
Public works	148,213	172,105	(23,892)	-	-	-
Highways and streets	-	-	-	710,456	807,592	(97,136)
Sanitation	289,187	276,038	13,149	-	-	-
Culture and recreation	120,956	113,892	7,064	-	-	-
Debt service	19,849	20,480	(631)	-	-	-
State grant expenditures	-	-	-	105,060	490,028	(384,968)
Inventory sand/calcium	44,544	-	44,544	-	-	-
Other	61,012	71,233	(10,221)	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>1,647,688</b>	<b>1,608,456</b>	<b>39,232</b>	<b>858,748</b>	<b>1,355,714</b>	<b>(496,966)</b>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	163,764	122,492	(41,272)	(56,105)	(196,773)	(140,668)
OTHER FINANCING SOURCES (USES):						
Operating transfers in	-	-	-	99,601	99,601	-
Operating transfers out	(97,836)	(97,836)	-	(20,265)	(20,265)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(97,836)</b>	<b>(97,836)</b>	<b>-</b>	<b>79,336</b>	<b>79,336</b>	<b>-</b>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 65,928	24,656	\$ (41,272)	\$ 23,231	(117,437)	\$ (140,668)
FUND BALANCE, BEGINNING OF YEAR		519,698			139,955	
FUND BALANCE, END OF YEAR		\$ 544,354			\$ 22,518	

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF HANCOCK**  
**COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN**  
**RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES**  
**Year Ended June 30, 2005**

	Proprietary Fund Types		Fiduciary Fund Type	Blended Totals (Memorandum Only)	
	Enterprise	Internal Service	Non- Expendable Trust	2005	2004
OPERATING REVENUES:					
Charges for services	\$ 1,168,182	\$ 1,418,870	\$ -	\$ 2,587,052	\$ 2,507,828
State Grant	55,668	-	-	55,668	84,543
Other revenue	44,088	1,043	325	45,456	124,945
<b>TOTAL OPERATING REVENUES</b>	<b>1,267,938</b>	<b>1,419,913</b>	<b>325</b>	<b>2,688,176</b>	<b>2,717,316</b>
EXPENSES:					
General government administration	138,714	28,332	(1)	167,045	175,894
Purchase of water	159,690	-	-	159,690	174,259
Garage maintenance	-	105,346	-	105,346	100,011
Operations and maintenance	1,015,232	223,700	-	1,238,932	1,107,670
Depreciation	222,281	97,259	-	319,540	294,762
Benefit payments	-	824,584	-	824,584	823,615
<b>TOTAL EXPENSES</b>	<b>1,535,916</b>	<b>1,279,221</b>	<b>(1)</b>	<b>2,815,136</b>	<b>2,676,211</b>
<b>OPERATING INCOME(LOSS)</b>	<b>(267,978)</b>	<b>140,692</b>	<b>326</b>	<b>(126,960)</b>	<b>41,105</b>
NON-OPERATING REVENUES (EXPENSES):					
Gain on sale of assets	-	350	-	350	-
Interest income	4,863	558	1,672	7,093	9,265
Interest expense	(78,850)	(6,950)	-	(85,800)	(91,783)
Operating transfers in	35,404	-	-	35,404	21,250
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>(38,583)</b>	<b>(6,042)</b>	<b>1,672</b>	<b>(42,953)</b>	<b>(61,268)</b>
<b>NET INCOME(LOSS)</b>	<b>(306,561)</b>	<b>134,650</b>	<b>1,998</b>	<b>(169,913)</b>	<b>(20,163)</b>
<b>RETAINED EARNINGS/FUND BALANCE, BEGINNING OF YEAR</b>	<b>721,117</b>	<b>245,260</b>	<b>150,354</b>	<b>1,116,731</b>	<b>1,130,404</b>
ADJUSTMENTS TO FUND EQUITY:					
Add depr on F/A acq w/contributed capital	6,490	-	-	6,490	6,490
<b>RETAINED EARNINGS/FUND BALANCE, END OF YEAR</b>	<b>\$ 421,046</b>	<b>\$ 379,910</b>	<b>\$ 152,352</b>	<b>\$ 953,308</b>	<b>\$ 1,116,731</b>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF HANCOCK**  
**COMBINED STATEMENTS OF CASH FLOWS**  
**ALL PROPRIETARY FUND TYPES**  
**Year Ended June 30, 2005**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Totals</u>
	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>	<u>Non Expendable Trust</u>	<u>(Memorandum Only)</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income (loss)	\$ (267,978)	\$ 140,690	\$ 326	\$ (126,962)
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	222,281	97,259	0	319,540
Operating transfers in (out)	35,404	0	0	35,404
(Increase) decrease in accounts receivable	(9,744)	(13,943)	0	(23,687)
(Increase) decrease in due from other funds	23,899	(136,705)	0	(112,806)
(Increase) decrease in due from other governmental units	13,252	0	0	13,252
(Increase) decrease in inventory	(10,199)	(921)	0	(11,120)
(Increase) decrease in prepaid expenses	12,119	(8,345)	0	3,774
Increase (decrease) in accounts payable	8,067	(12,471)	(28)	(4,432)
Increase (decrease) in accrued interest	1,671	6,463	0	8,134
Increase (decrease) in due to other funds	104,707	0	0	104,707
Increase (decrease) in due to other governmental units	13,363	0	(1,572)	11,791
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>146,842</u>	<u>72,027</u>	<u>(1,274)</u>	<u>217,595</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(3,599)	0	(1,749)	(5,348)
Purchase of equipment	(30,286)	(175,297)	0	(205,583)
Interest on investments	4,863	558	0	5,421
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(29,022)</u>	<u>(174,739)</u>	<u>(1,749)</u>	<u>(205,510)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from long-term debt	0	161,496	0	161,496
Gain on sale of assets	0	350	0	350
Interest paid on long-term debt	(78,850)	(6,950)	0	(85,800)
Repayment of long-term debt	(24,000)	(39,999)	0	(63,999)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>(102,850)</u>	<u>114,897</u>	<u>0</u>	<u>(149,799)</u>
NET INCREASE (DECREASE) IN CASH	14,970	12,185	(3,023)	(137,714)
CASH AT BEGINNING OF YEAR	<u>146,515</u>	<u>22,035</u>	<u>68,711</u>	<u>237,261</u>
CASH AT END OF YEAR	<u>\$ 161,485</u>	<u>\$ 34,220</u>	<u>\$ 65,688</u>	<u>\$ 99,547</u>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

On November 10, 1987, the voters of the City of Hancock voted to establish a Charter Commission for the purpose of rewriting the City Charter that was adopted on July 13, 1982. A new City Charter was drafted by the Charter Commission and approved by the State of Michigan on November 16, 1987. On August 2, 1988, City voters approved the new charter, which changed the City's form of government to the City Council/Manager form.

The City provides services for public safety, public works, sanitation, recreation, and community development as authorized by its Charter.

The accounting policies of the City of Hancock conform to generally accepted accounting principles for local governmental units as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The following is a summary of the more significant policies:

**REPORTING ENTITY**

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Hancock (the primary government) and its component unit. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The criteria and guidelines of the Governmental Accounting Standards Board Statement Number 14 *The Reporting Entity* are utilized to determine that all applicable entities are included in the combined financial statements of the City. The primary criterion for inclusion is the degree of oversight responsibility over such entities by the City's elected officials. This responsibility includes financial interdependency, selection of governing authority, selection of management, ability to significantly influence operations, and accountability for fiscal matters. Additional criteria that are considered even if there is no significant oversight responsibility are an entity's scope of public service and special financing relationships between a particular agency and the reporting entity.

The following organizations are not included in the reporting entity of the City:

**HANCOCK HOUSING COMMISSION**

The Hancock Housing Commission was formulated to construct and operate housing for low income families and senior citizens. The elements considered in the City's determination that the Hancock Housing Commission should not be included as part of the City's general purpose financial statements are as follows:

1. Neither the Council nor management of the City of Hancock is responsible for the designation of the Housing Commission management. Similarly, the City of Hancock does not approve Housing Commission budgets nor does it significantly influence operations.
2. The City of Hancock does not have significant fiscal management responsibilities; it is not responsible for funding or guaranteeing debt, nor does it have a right to receive surplus funds.
3. The City of Hancock provides no ongoing financial support to the Hancock Housing Commission, nor do any special financing relationships exist.
4. Residency in the housing complex is not limited to City residents.

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Audited financial information of the Hancock Housing Commission as of and for the year ended December 31, 2004 is as follows:

Total assets	<u>\$ 1,830,272</u>
Total liabilities	\$ 212,821
Total equity	1,617,451
Total liabilities and surplus	<u>\$ 1,830,272</u>
Operating income	\$ 746,846
Operating expenses	<u>726,902</u>
Net operating income	19,944
Net Non-operating revenues(expenses)	1,353
Net income	<u>\$ 21,297</u>

Portage Lake Water and Sewage Authority

On January 24, 1964, the City of Houghton and the City of Hancock executed a contract to jointly acquire, construct, equip, and operate a sewage treatment plant, including necessary intercepting sewers and appurtenances. Each municipality was to bear one-half of the cost of the sewage treatment plant, pumping stations, and necessary appurtenances and the full cost of its own intercepting sewers. Title to the sewage plant, including land and ownership shall be in the name of the authority whereas the ownership of the intercepting sewers, vests in the respective municipality. Funds for the construction of these facilities were provided by each municipality through the issuance and sale of general obligation bonds and grants totaling \$500,000 from the Federal government. By joint agreement, operating expenses incurred from the inception of operations to February 29, 1966, were shared equally, and for the balance of 1966 on the basis of two-thirds to the City of Houghton, and one-third to the City of Hancock. The contract provides for a joint board to control, manage, and operate the facility with each municipality to share the cost of operation, maintenance, and administration on the basis of relative usage as determined by metered services with 50 percent of the costs of capital expenditures to be paid by each municipality. On December 14, 1972, this agreement was amended to provide allocation of future capital expenditures on the basis of relative usage. The joint board consists of five members of which two are appointed by the respective City Councils and the fifth member appointed by the other four members.

The elements considered in the City's determination that the Portage Lake Water and Sewage Authority should not be included as a component unit of the City are as follows:

1. The City of Hancock is not responsible for the designation of the Authority's management.
2. The City does not approve the Authority's annual budget or budget amendments.
3. The City does not significantly influence operations.
4. The Cities each appoint two of the five members to the Authority's Board of Trustees.
5. The City does not have significant fiscal management responsibilities. It does not have a right to receive surplus funds, but is responsible for guaranteeing certain debt along with the City of Houghton.
6. The City provides no direct on-going financial support to the Water and Sewage Authority.
7. The City does not hold title to the physical assets of the Authority.



**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

A summary of the Authorities financial information for the year ended June 30, 2005 (most recent year audited) shows the following:

Total assets	\$25,147,422
Total liabilities	\$8,713,595
Total equity	\$16,433,827
Total revenues	\$1,297,848
Total expenditures	\$1,297,848
Long-term debt	\$8,610,774

Financial transactions between the City and the Authority, reported in the accompanying financial statements, constitute contractual agreements with the Authority for providing services to the City.

COMPONENT UNITS

In conformity with generally accepted accounting principles, the financial statements of component units, have been included in the financial reporting entity either as blended component units or as discretely presented component units.

DISCRETELY PRESENTED COMPONENT UNITS

The component units' columns in the combined financial statements include the financial data of the City's component unit, the Downtown Development Authority (DDA). This unit is reported in a separate column to emphasize that it is legally separate from the City. Complete financial statements of the DDA may be obtained from the City Clerks Office, 399 Quincy Street, Hancock, MI 49930.

BLENDED COMPONENT UNITS

City of Hancock Building Authority

The Authority is an entity legally separate from the City. The Authority is governed by a board appointed by the City and is reported as if it were part of the City's operations because its primary purpose is that of a financing vehicle for the construction of City facilities.

FUND ACCOUNTING

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial report into three broad and seven generic fund types.

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**GOVERNMENTAL FUND TYPES**

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The fund includes the general operating revenues and expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal resources, grants and other inter-governmental revenues.

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specific purposes.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds, special assessment funds, or trust funds).

**PROPRIETARY FUND TYPES**

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Water Fund, Sewer Fund, Parking Fund, and Transit Fund are enterprise type funds.

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City or to other governments, on a cost reimbursement basis. The City's Motor Vehicle Fund and Employee Benefit Fund are Internal Service Type Funds.

**FIDUCIARY FUND TYPES**

Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**FIXED ASSETS AND LONG-TERM LIABILITIES**

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on governmental fund balance sheets. This reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financial sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fixed assets used in governmental fund type operations are accounted for in the General Fixed Assets Account Group, rather than in governmental funds.

Fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds.

The General Fixed Assets Account Group and the General Long-Term Debt Account Group are not "funds." Their purpose is related only to the measurement of financial position. They are not involved with measurement of results of operations.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with an activity are included on their balance sheets. Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation is generally reflected over the estimated useful lives using the straight line method.

**BASIS OF ACCOUNTING**

The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds, expendable trust funds, and agency funds are accounted for using the modified accrual basis of accounting. Under modified accrual, revenues are recognized when they become both measurable and available to finance expenditures of the current period. Significant revenues susceptible to accrual include property taxes, state and federal sources, and intergovernmental revenues. Other revenue sources, such as licenses, permits, charges for services, sales, fees, fines, rentals, and others are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are not accrued in the governmental fund types or in Expendable Trust and Agency Funds. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred with certain exceptions such as interest on long-term debt which is generally recognized when due.

All proprietary funds, are accounted for using the full accrual basis of accounting. Under full accrual, revenues are recognized when earned, and expenses are recognized when incurred.

**BUDGETARY DATA**

Requirements for preparing the City's annual budget are outlined in the City Charter. Major procedures in preparing the annual budget are as follows:

1. On or before the 1st Monday in April of each year, the City Manager submits to the City Council an operating budget and capital improvement projections for the ensuing fiscal year.

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

2. A public hearing on the budget is held not less than one week before the budget's final adoption at such time as the council shall direct.
3. On or before the last day in May, the Council, by resolution, adopts a budget for the ensuing fiscal year.
4. The City Council adopts the budget by activity categories generally the same as those presented in the combined financial statements. All budget amendments and transfers during the fiscal year are approved by the Council. The City Council has the authority to amend the budget when it becomes apparent that deviations in the original budget will occur and the amount of the deviation can be determined. The City maintains and monitors the budget on a line item basis for accounting control purposes. During the year ended June 30, 2005, the City's budget had been amended.
5. The City allows all unencumbered and unexpended appropriations to lapse at year end.

In accordance with the State of Michigan Budgeting and Accounting Act, the City must adopt an annual operating budget for the General and Special Revenue.

**PROPERTY TAXES**

Property taxes on tax roll properties attach as an enforceable lien on property as of December 31, are levied annually on July 1, and are due on August 10. A one percent (1%) penalty per month is added to the tax liability for taxes not paid by August 10.

The City bills and collects its own property taxes, and those of the local school district, the Intermediate School District, and County. Collections of other units' taxes and remittance of these collections are accounted for in the Trust and Agency Fund. City property tax revenues are recognized when levied to the extent that they result in current receivables.

**INVENTORY**

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the General Fund consists of expendable supplies. The individual inventory supplies are recorded as an asset when purchased.

**DUE FROM AND TO OTHER FUNDS**

During the fiscal year, the City had numerous transactions between funds to finance operations, provide services, construct assets and service debt. To the extent that certain transactions between funds had not been paid or received as of June 30, 2005, balances of inter-fund accounts receivable (due from) or payable (due to) have been recorded.

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**TOTAL COLUMNS ON COMBINED STATEMENTS**

The total columns on the combined statements are captioned Memorandum Only to indicate they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Consolidation requires that inter-fund eliminations be made in aggregation of these data.

**ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**ENCUMBRANCES**

Encumbrances are defined as commitments related to unperformed contracts for goods and services. The District does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements.

**NOTE B - CASH AND INVESTMENTS**

**CASH DEPOSITS**

At June 30, 2005, the book value of the City's demand deposits, consisting primarily of checking and savings accounts, certificates of deposit and other cash equivalents, was \$593,805 with a corresponding bank balance of \$647,106. Qualifying deposits are insured by the Federal Deposit Insurance Corporation up to \$100,000. Of the bank balance, approximately \$468,015 representing approximately 72% of the City's deposits, were covered by Federal Depository Insurance. Michigan law does not require collateralization of government deposits, therefore, only the \$468,016 was insured and \$179,090 was neither insured nor collateralized.

**INVESTMENTS**

The investment of the City's funds is governed by state statutes. In general, state statutes provide that the City is authorized to invest its funds in certificates of deposit, savings accounts, and deposit accounts in a bank which is a member of the Federal Deposit Insurance Corporation. In addition, it may also invest in bonds, securities and other obligations of the United States in which the principal and interest are fully guaranteed by the United States, and investments in commercial paper rated at prime at the time of purchase and which mature not more than 270 days after the date of purchase.

The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

1. Insured or registered, or securities held by the entity or its agent in the entity's name.

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005**

**NOTE B - CASH AND INVESTMENTS (Continued)**

2. Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the entity's name.
3. Uninsured and unregistered, with securities held by the counter-party or by its trust department or agent but not in the entity's name.

At June 30, 2005, the City's investments were as follows:

	Categories			Carrying Amount	Market Value
	1	2	3		
Short Term - U.S. Government Trust	\$ 0	\$ 279,930	\$ 0	\$ 279,930	\$280,391
Federal Home Loan Bank Note	0	59,700	0	59,700	59,138
Total	<u>\$ 0</u>	<u>\$ 339,630</u>	<u>\$ 0</u>	<u>\$ 339,630</u>	<u>\$339,529</u>

**NOTE C - GENERAL FIXED ASSETS**

A summary of the changes in general fixed assets is as follows:

	Balance 6/30/04	Additions	Subtractions	Balance 6/30/05
Land	\$ 390,026	\$ 0	\$ 0	\$ 390,026
Building and additions	2,224,051	0	0	2,224,051
Machinery and equipment	1,255,005	11,922	0	1,266,927
Fund Equity	<u>\$ 3,869,082</u>	<u>\$ 11,922</u>	<u>\$ 0</u>	<u>\$ 3,881,004</u>

**NOTE D - PROPRIETARY FUNDS - PROPERTY, PLANT, AND EQUIPMENT**

The components of property, plant, and equipment in City proprietary funds at June 30, 2005 are summarized as follows:

	Enterprise Funds	Internal Service Funds	Total
Land and Improvements	\$ 238,496	\$ 0	\$ 238,496
Utility Plant in Service	11,319,793	0	11,319,793
Equipment	30,893	1,832,614	1,863,507
Total	11,589,182	1,832,614	13,421,796
Allowances for Depreciation	(7,506,549)	(1,539,384)	(9,045,933)
Balance	<u>\$ 4,082,633</u>	<u>\$ 293,230</u>	<u>\$ 4,375,863</u>

Property, plant, and equipment are recorded at cost and accounted for in the proprietary funds. Depreciation on such assets is charged as an expense against the operations of the funds on a straight-line basis. Depreciation is based on the estimated useful lives of the assets using 3-10 years for equipment and 40-50 years for property and plant.

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005**

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**NOTE E - RESTRICTED ASSETS - PROPRIETARY FUNDS**

Enterprise Funds: Certain proceeds from operations of the Water Supply System Fund and Sewer Disposal Fund are restricted for the payment of revenue and general obligation bonds and, accordingly, are recorded as restricted cash assets in the amount of \$264,094 as of June 30, 2005. Both the Water and Sewer Funds balance sheets have restricted cash in the amount of \$145,931 and \$118,163, respectively. Use of these restricted assets are limited by applicable bond indentures and ordinances.

Internal Service Funds: The Employee Benefit Fund has restricted assets of \$5,535 as of June 30, 2005.

**NOTE F - INTERFUND RECEIVABLES AND PAYABLES**

The amounts of interfund receivables and payables at June 30, 2005 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 319,575	Transit	\$ 15,000
		Parking	1,000
		Sewer Disposal	71,075
		Water Supply	<u>232,500</u>
Sub-Total	<u>319,575</u>	Sub-Total	<u>319,575</u>
Local Street	<u>11,641</u>	General	<u>11,641</u>
Elevation St - TIF	38,999	Sewage Disposal	19,499
		Water Supply	<u>19,500</u>
Sub-Total	<u>38,999</u>	Sub-Total	<u>38,999</u>
Motor Vehicle	304,451	General	15,610
		Major Street	90,034
		Local Street	100,985
		Parking	168
		Sewage Disposal	7,028
		Water Supply	<u>90,626</u>
Sub-Total	<u>304,451</u>	Sub-Total	<u>304,451</u>
Employee Benefit	88,798	General	52,698
		Water	28,127
		Parking	2,973
		Transit	<u>5,000</u>
Sub-Total	<u>88,798</u>	Sub-Total	<u>88,798</u>
TOTALS	<u>\$ 763,464</u>	TOTALS	<u>\$ 763,464</u>

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005**

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**NOTE G - ACCUMULATED UNPAID VACATION AND SICK LEAVE**

City employees generally earn sick leave at the rate of one day per month. Accumulated sick leave per employee cannot exceed ninety (90) days and is paid to union employees upon retirement or to beneficiaries in case of death. At termination, non-union employees receive 2/25 of their accumulated sick leave plus an additional 1/25 of that accumulation for each year of service until full accumulation is paid for 25 years of service or age 65. Vacation pay is accumulated annually based on length of service and must be used within one year.

Accumulated unpaid vacation and sick leave at June 30, 2005 was:

	Employee Benefit Fund	General Long-Term Debt Account Group	Total
Vacation	\$ 89,288	\$ 0	\$ 89,288
Sick Leave	62,870	180,941	243,811
TOTAL	<u>\$ 152,158</u>	<u>\$ 180,941</u>	<u>\$ 333,099</u>

Accrued vacation and sick leave have been recorded as an expense of the Employee Benefit Fund and a liability to the extent of the proprietary funds portion of the total. The portion associated with the Governmental Fund types have been recorded in the General Long-Term Debt group of accounts in accordance with generally accepted accounting principles.

**NOTE H - LONG-TERM DEBT**

GENERAL LONG-TERM DEBT ACCOUNT GROUP

Fire Truck Note: On June 14, 1999 the City of Hancock entered into a \$123,426 loan contract with Superior National Bank for the purpose of purchasing a fire truck. The loan was financed at an interest rate of 4.98% per annum. Principal and interest amounts are payable August 1 in equal annual installments of \$20,479.

Year	Principal	Interest	Total
2005-06	\$ 19,475	\$ 984	\$ 20,459
TOTALS	<u>\$ 19,475</u>	<u>\$ 984</u>	<u>\$ 20,459</u>

1997 Building Authority Bonds: On August 15, 1997, the City of Hancock Building Authority authorized the issuance of general obligation bonds in the amount of \$533,800 to fund the construction of a new fire hall. The bond was issued in a single denomination of \$533,800 at an interest rate not to exceed 5.0% per annum with principal amounts payable August 1 and interest payable semi-annually on February 1 and August 1.



**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005**

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**NOTE H - LONG-TERM DEBT (Continued)**

**SCHEDULE OF 1997 BUILDING AUTHORITY BONDS**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-06	\$ 10,000	\$ 24,000	\$ 34,000
2006-07	10,000	23,500	33,500
2007-08	10,000	23,000	33,000
2008-09	15,000	22,500	37,500
2009-10	15,000	21,875	36,875
2010-11	15,000	21,125	36,125
2011-12	15,000	20,375	35,375
2012-13	15,000	19,625	34,625
2013-14	15,000	18,875	33,875
2014-15	20,000	18,125	38,125
2015-16	20,000	17,250	37,250
2016-17	20,000	16,250	36,250
2017-18	20,000	15,250	35,250
2018-23	120,000	60,125	180,125
2023-28	155,000	28,250	183,250
<b>TOTALS</b>	<u><b>\$ 475,000</b></u>	<u><b>\$ 350,125</b></u>	<u><b>\$ 825,125</b></u>

1998 Building Authority Bonds: On March 19, 1998, the City of Hancock Building Authority authorized the issuance of general obligation bonds in the amount of \$1,048,000 to fund the construction of a new department of public works garage. The bond was issued in a single denomination of \$1,048,000 at an interest rate of 4.75% per annum with principal amounts payable April 1 and interest payable semi-annually on April 1 and October 1.

**SCHEDULE OF 1998 BUILDING AUTHORITY BONDS**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-06	\$ 21,000	\$ 45,268	\$ 66,268
2006-07	21,000	44,294	65,294
2007-08	23,000	43,296	66,296
2008-09	25,000	42,251	67,251
2009-10	26,000	41,111	67,111
2010-11	28,000	39,900	67,900
2011-12	29,000	38,618	67,618
2012-13	31,000	37,264	68,264
2013-14	32,000	35,839	67,839
2014-15	34,000	34,343	68,343
2015-16	36,000	32,775	68,775
2016-17	38,000	31,113	69,113
2017-18	41,000	29,355	70,355
2018-23	240,000	116,447	356,447
2023-28	318,000	55,813	373,813
<b>TOTALS</b>	<u><b>\$ 943,000</b></u>	<u><b>\$ 667,687</b></u>	<u><b>\$ 1,610,687</b></u>

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005**

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**NOTE H - LONG-TERM DEBT (Continued)**

ENTERPRISE FUNDS

1997 Water Supply System Revenue Bond: On November 5, 1997, the City of Hancock authorized the sale of a Water Supply System Revenue Bond in the amount of \$1,320,000 for the purpose of constructing improvements to the City's water supply system. The bond was issued in a single denomination of \$1,320,000 at an interest rate of 4.5% per annum with principal amounts payable November 1 and interest payable semi-annually on November 1 and May 1.

Principal installments are subject to prepayment prior to maturity, in inverse chronological order, at the Issuer's option, on any interest payment date on or after November 1, 2001, at par plus accrued interest to the date fixed for prepayment.

SCHEDULE OF 1997 WATER SUPPLY SYSTEM REVENUE BONDS

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-06	\$ 9,000	\$ 52,540	\$ 61,540
2006-07	10,000	52,158	62,158
2007-08	18,000	51,730	69,730
2008-09	19,000	51,100	70,100
2009-10	20,000	50,268	70,268
2010-11	21,000	49,390	70,390
2011-12	22,000	48,468	70,468
2012-13	23,000	47,500	70,500
2013-14	24,000	46,488	70,488
2014-15	25,000	45,430	70,430
2015-16	26,000	44,328	70,328
2016-17	27,000	43,180	70,180
2017-18	29,000	41,988	70,988
2018-23	165,000	189,847	354,847
2023-28	210,000	149,750	359,750
2028-33	262,000	99,103	361,103
2033-38	253,562	35,889	289,451
TOTALS	<u>\$ 1,163,562</u>	<u>\$ 1,099,157</u>	<u>\$ 2,262,719</u>

1998 Water Supply System Revenue Bond: On October 20, 1998, the City of Hancock authorized the sale of a Water Supply System Revenue Bond in the amount of \$500,000 for the purpose of constructing a new water tower. The bond was issued in a single denomination of \$500,000 at an interest rate of 4.5% per annum with principal amounts payable May 1 and interest payable semi-annually on November 1 and May 1.

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005**

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**NOTE H - LONG-TERM DEBT (Continued)**

**SCHEDULE OF 1998 WATER SUPPLY SYSTEM REVENUE BONDS**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-06	\$ 7,000	\$ 20,790	\$ 27,790
2006-07	7,000	20,475	27,475
2007-08	7,000	20,160	27,160
2008-09	7,000	19,845	26,845
2009-10	8,000	19,530	27,530
2010-11	8,000	19,170	27,170
2011-12	8,000	18,810	26,810
2012-13	9,000	18,450	27,450
2013-14	9,000	18,045	27,045
2014-15	10,000	17,640	27,640
2015-16	10,000	17,190	27,190
2016-17	10,000	16,740	26,740
2017-18	11,000	16,290	27,290
2018-23	59,000	73,890	132,890
2023-28	77,000	59,085	136,085
2028-33	95,000	40,275	135,275
2033-38	120,000	16,650	136,650
<b>TOTALS</b>	<u><b>\$ 462,000</b></u>	<u><b>\$ 433,035</b></u>	<u><b>\$ 895,035</b></u>

Sanitary Sewage Disposal System Revenue Bonds: On September 16, 1976, the City of Hancock authorized the sale of Sanitary Sewage Disposal System Revenue Bonds in the amount of \$290,000. The bonds were issued in denominations of \$5,000 at an interest rate of 5% per annum with principal amounts payable January 1 and interest payable semi-annually on July 1 and January 1.

Bonds are subject to redemption prior to maturity, in inverse numerical order, at the option of the City, at par plus accrued interest to the date fixed for redemption.

**SCHEDULE OF SANITARY SEWAGE DISPOSAL SYSTEM REVENUE BONDS**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-06	\$ 10,000	\$ 4,750	\$ 14,750
2006-07	10,000	4,250	14,250
2007-08	10,000	3,750	13,750
2008-09	10,000	3,250	13,250
2009-10	10,000	2,750	12,750
2010-11	10,000	2,250	12,250
2011-12	10,000	1,750	11,750
2012-13	10,000	1,250	11,250
2013-14	15,000	750	15,750
<b>TOTALS</b>	<u><b>\$ 95,000</b></u>	<u><b>\$ 24,750</b></u>	<u><b>\$ 119,750</b></u>

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005**

**NOTE H - LONG-TERM DEBT (Continued)**

INTERNAL SERVICE FUNDS

Installment Loans

<u>Purpose of Note</u>	<u>Date Of Issue</u>	<u>Original Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>6/30/05 Balance</u>
JD Grader 2001	02/01/01	<u>\$ 137,506</u>	02/01/07	5.95%	<u>\$ 52,740</u>
Street Sweeper	01/10/05	<u>\$ 112,000</u>	01/10/08	3.47%	<u>\$ 47,691</u>
Sander and Dump truck	10/01/04	<u>\$ 161,496</u>	09/30/10	3.6%	<u>\$ 161,495</u>

As of June 30, 2005, the aggregate maturities of loans payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-06	\$ 60,772	\$ 11,383	\$ 72,155
2006-07	63,336	8,819	72,155
2007-08	52,883	6,002	58,885
2008-09	27,321	3,058	30,379
2009-10	28,310	2,069	30,379
2010-11	29,304	1,052	30,356
<b>TOTALS</b>	<u>\$ 261,926</u>	<u>\$ 32,383</u>	<u>\$ 294,309</u>

Changes in long-term debt principal during 2004-05 are summarized below:

	<u>Balance 06/30/04</u>	<u>Additions</u>	<u>Retired</u>	<u>Balance 06/30/05</u>
<b>GENERAL LONG-TERM DEBT</b>				
Building Authority Bonds - 1997	\$ 485,000	\$ 0	\$ 10,000	\$ 475,000
Building Authority Bonds - 1998	963,000	0	20,000	943,000
Fire Truck Note	38,036	0	18,561	19,475
	<u>1,486,036</u>	<u>0</u>	<u>48,561</u>	<u>1,437,475</u>
<b>ENTERPRISE FUNDS</b>				
Water System Bonds - 1997	1,171,562	0	8,000	1,163,562
Water System Bonds - 1998	468,000	0	6,000	462,000
Sewage Disposal Bonds - 1976	105,000	0	10,000	95,000
	<u>1,744,562</u>	<u>0</u>	<u>24,000</u>	<u>1,720,562</u>
<b>INTERNAL SERVICE FUND</b>				
Installment Loans	140,428	161,496	39,998	261,926
Tax Anticipation Note	5,027	0	5,027	0
<b>TOTALS</b>	<u>\$ 3,376,053</u>	<u>\$ 161,496</u>	<u>\$ 117,586</u>	<u>\$ 3,419,963</u>

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005**

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**NOTE H - LONG-TERM DEBT (Continued)**

The aggregate amount of maturities on long-term debt by fund type for each of the next 5 years, and to maturity, is as follows:

**ENTERPRISE FUNDS**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-06	\$ 26,000	\$ 78,080	\$ 104,080
2006-07	27,000	76,883	103,883
2007-08	35,000	75,640	110,640
2008-09	36,000	74,195	110,195
2009-10	38,000	72,548	110,548
2010-11	39,000	70,810	109,810
2011-12	40,000	69,028	109,028
2012-13	42,000	67,200	109,200
2013-14	48,000	65,283	113,283
2014-15	35,000	63,070	98,070
2015-16	36,000	61,518	97,518
2016-17	37,000	59,920	96,920
2017-18	40,000	58,278	98,278
2018-23	224,000	263,737	487,737
2023-28	287,000	208,835	495,835
2028-33	357,000	139,378	496,378
2033-38	373,562	52,539	426,101
<b>TOTALS</b>	<u>\$ 1,720,562</u>	<u>\$ 1,556,942</u>	<u>\$ 3,277,504</u>

**INTERNAL SERVICE FUNDS**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-06	\$ 60,772	\$ 11,383	\$ 72,155
2006-07	63,336	8,819	72,155
2007-08	52,883	6,002	58,885
2008-09	27,321	3,058	30,379
2009-10	28,310	2,069	30,379
2010-11	29,304	1,052	30,356
<b>TOTALS</b>	<u>\$ 261,926</u>	<u>\$ 32,383</u>	<u>\$ 294,309</u>

**GENERAL LONG-TERM DEBT ACCOUNT GROUP**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005-06	\$ 50,475	\$ 70,252	\$ 120,727
2006-07	31,000	67,794	98,794
2007-08	33,000	66,296	99,296
2008-09	40,000	64,751	104,751
2009-10	41,000	62,986	103,986
2010-11	43,000	61,025	104,025
2011-12	44,000	58,993	102,993
2012-13	46,000	56,889	102,889
2013-14	47,000	54,714	101,714
2014-15	54,000	52,468	106,468
2015-16	56,000	50,025	106,025
2016-17	58,000	47,363	105,363
2017-18	61,000	44,605	105,605
2018-23	360,000	176,572	536,572
2023-28	473,000	84,063	557,063
<b>TOTALS</b>	<u>\$ 1,437,475</u>	<u>\$ 1,018,796</u>	<u>\$ 2,456,271</u>

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005**

**NOTE I - ENTERPRISE FUNDS**

SEGMENT INFORMATION

The City maintains four Enterprise Funds which provide water, sewer, parking, and transit services. Segment information for the year ended June 30, 2005 is as follows:

	Parking Meter	Sewer	Water	Transit
Operating revenues	\$ 14,392	\$ 621,980	\$ 516,653	\$ 114,913
Depreciation	\$ 0	\$ 102,062	\$ 102,580	\$ 17,639
Income (loss) from operations	\$ (8,834)	\$ (119,439)	\$ (115,533)	\$ (24,172)
Non-operating revenues	\$ 5,013	\$ 9,913	\$ 11,739	\$ 13,602
Non-operating expenses	\$ 0	\$ (5,250)	\$ (73,600)	\$ 0
Net Income (loss)	\$ (3,822)	\$ (114,777)	\$ (177,394)	\$ (10,571)
Property, plant & equipment				
Additions	\$ 0	\$ 8,452	\$ 21,835	\$ 0
Total assets	\$ 1,403	\$ 1,711,784	\$ 2,877,346	\$ 59,181
Net working capital surplus (deficit)	\$ (3,285)	\$ (2,204)	\$ (294,719)	\$ (8,835)
Long-term liabilities:				
Payable from operating revenues	\$ 0	\$ 85,000	\$ 1,609,562	\$ 0
Total equity	\$ (3,285)	\$ 1,467,925	\$ 840,727	\$ 32,353

**NOTE J - RESERVES AND RESTRICTED ASSETS**

The ordinance authorizing issuance of the 1997 and 1998 Water Supply System Revenue Bonds required that specific accounts be established and monies deposited as follows:

Bond Reserve Account - Quarterly transfers are to be made in the sum of at least \$2,480 per quarter, with the annual requirement equal to \$9,920 until there is accumulated in such fund the aggregate sum of \$131,700.

Bond and Interest Redemption Account - Quarterly transfers are to be made equal to ½ of the next interest payment due plus ¼ of the next principal payment due.

Short-lived Depreciation Account - Quarterly transfers are to be made in the sum of not less than \$2,843, with the annual requirement equal to \$11,370. When the balance in the Bond Reserve Account reaches \$131,700, the quarterly transfer will be increased to \$5,323.

At June 30, 2005, the City had established these accounts and had restricted cash, as required, as follows:

	Requirements		Amount
	June 30, 2004	June 30, 2005	Funded
Bond reserve account	\$ 59,520	\$ 69,440	\$ 60,677
Bond and interest redemption account	21,945	22,409	22,409
Short-lived depreciation account	68,232	79,602	79,602
	<u>\$ 149,697</u>	<u>\$ 171,451</u>	<u>\$ 162,688</u>

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005**

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**NOTE K - TRANSIT FUND**

The Transit fund receives grant revenue under Section 10e(4) of PA 51. These funds are to be used to pay for eligible operating expenses for public transportation. The Local Bus Operating Assistance revenue under Act 51 is disbursed to the City based on the amount of eligible operating expenses at the current reimbursement rate. The Local Audit Division of the Michigan Department of Treasury and the Bus Transit Division of MDOT administer the audit disclosures and compliance requirements.

**NOTE L - TAX INCREMENT FINANCING**

The City had three tax increment financing districts at June 30, 2005, the Downtown Development District(DDD), the Elevation Street District(ESD), and the MTEPS (Smart Zone) district. The taxes on the DDD and the ESD districts are levied based on the increase of the state equalized value of the properties from the base year to the current year and are levied on both real and personal property. The DDD expanded the base year in 1993 from the 1984 initial base year. The tax revenues generated from the DDD and the ESD are recorded in the Downtown Development Authority Fund and Elevation Street TIFA Fund respectively.

On April 11, 2001, The Michigan Economic Development Corporation approved the application for a Smart Park that was submitted by the Michigan Tech Enterprise Smart Zone (MTEPS). The MTEPS is a partnership between Michigan Technological University, the City of Hancock and the City of Houghton. The MTEPS will be funded for the first 2 years by a state grant. Thereafter, it will be funded through a tax increment financing district which includes the entire Cities of Hancock and Houghton. The tax is levied annually with the school millage only and will continue until the year 2017. The Smart Zone TIF plan will not affect either City's current tax revenue. The tax revenue levied for the summer 2004 Smart Zone was collected and paid in full to the MTEPS as of June 30, 2005.

Summary of TIF district data as of June 30, 2005:

	TIF District		
	Downtown Development	Local Street (Elevation)	MTEPS
Base year	1984	1993	1999
State Equalized Value (SEV) base year			
Real property	\$ 9,460,400	\$ 143,000	\$ 46,490,421
Personal property	\$ 1,639,380	\$ 0	\$ 3,040,594
Current year SEV			
Real property	\$ 13,114,180	\$ 993,722	\$ 56,835,442
Personal property	\$ 1,511,443	\$ 107,700	\$ 3,963,312
Increase (Decrease) of taxable value			
Real	\$ 3,653,780	\$ 850,722	\$ 10,345,021
Personal property	\$ (127,937)	\$ 107,700	\$ 922,718
Authorized tax mills levied	23.8894	21.2751	12.0000
Tax revenue collected	\$ 86,724	\$ 20,237	\$ 40,994

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005**

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**NOTE M - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the City for these budgetary funds were adopted at the account level. During the year ended June 30, 2005, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated. Over expenditures are noted as follows:

Description	Total <u>Appropriations</u>	Amount of <u>Expenditures</u>	Budget <u>Variances</u>
<b>GENERAL FUND</b>			
Legislative	\$ 11,869	\$ 14,755	\$ (2,886)
Assessor	\$ 22,538	\$ 24,771	\$ (2,233)
Elections	\$ 10,360	\$ 12,068	\$ (1,708)
Buildings/grounds	\$ 22,300	\$ 22,845	\$ (545)
Public Safety-Police	\$ 534,801	\$ 561,367	\$ (26,566)
Public Works-DPW	\$ 72,800	\$ 95,825	\$ (23,025)
Public Works-Equip rental/street light	\$ 62,967	\$ 73,695	\$ (10,728)
Sanitation-Spring and fall cleanup	\$ 27,623	\$ 34,021	\$ (6,398)
Recreation-Parks	\$ 35,934	\$ 42,657	\$ (6,723)
Recreation-Skating Rinks	\$ 6,842	\$ 7,460	\$ (618)
Debt Service	\$ 19,849	\$ 20,480	\$ (631)
Other-Community promotion	\$ 27,022	\$ 35,963	\$ (8,941)
Other-Insurance	\$ 33,990	\$ 35,270	\$ (1,280)
<b>MAJOR STREET FUND</b>			
General government administration	\$ 17,573	\$ 33,790	\$ (16,217)
State trunkline maintenance	\$ 195,506	\$ 226,836	\$ (31,330)
Routine maintenance	\$ 34,199	\$ 40,396	\$ (6,197)
Traffic services	\$ 2,612	\$ 3,377	\$ (765)
Snow and ice control	\$ 101,207	\$ 154,823	\$ (53,616)
<b>LOCAL STREET FUND</b>			
General government administration	\$ 5,709	\$ 6,589	\$ (880)
Traffic services	\$ 1,933	\$ 3,588	\$ (1,655)
Snow and ice control	\$ 151,206	\$ 200,338	\$ (49,132)
<b>CDBG FUNDS</b>	\$ 105,060	\$ 490,028	\$ (384,968)
<b>RESIDENTIAL CAPITAL PROJECTS</b>			
General government administration	\$ 0	\$ 274	\$ (274)



**NOTE N - PENSION PLAN**

**DEFINED BENEFIT PENSION PLAN**

*Plan Description:* The City contributes to the Municipal Employees' Retirement System of Michigan (MERS) which is an agent multiple employer public defined benefit employee retirement plan. The City adopted the plan on December 1, 2002, and transferred MERS member employees plan assets from the previous money purchase defined contribution plan to the new retirement system in January 2003. The new MERS system was also funded with employee retirement benefits accrued based on agreements from the prior money purchase plan but not deposited into the plan for the period January 2002 to November 2002. The MERS provides retirement, disability, and death benefits to plan members and beneficiaries. The plan covers all employees of the City, except those already covered by a union bargaining agreement or otherwise not qualified. Currently, 12 active members are enrolled. An employee is eligible for full retirement benefits after 8 years of credited service and age 60 is attained. The annual pension benefit at retirement is based on 2% of the employees Final Average Compensation (FAC) multiplied by the years and months of service. FAC is the average of the highest consecutive 5-year period of the employees' credited service. A month of service is credited if at least 80 hours are worked in that month. Retirement benefits vest after 8 years of service, and are not paid until the date retirement would have occurred had the member remained an employee.

MERS was created under Public Act 135 of 1945, as repealed and replaced by Public Act 427 of 1984. On August 15, 1996, pursuant to 1996 PA 220, MERS became an independent public non-profit corporation. Prior to that time MERS was a component unit of the State of Michigan. MERS is currently administered solely by a nine-member Retirement Board. A publicly available financial report that includes financial statements and required supplementary information is issued annually by MERS. The report may be obtained by writing to Municipal Employees' Retirement System of MI, 1134 Municipal Way, Lansing MI, 48917 or by calling 1-517-703-9030.

*Funding Policy:* Plan members are required to contribute 3.3% of their annual covered salary. The City is required to contribute at an actuarially determined rate. The current rate is 9.23% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the MERS Retirement Board.

*Annual Pension Cost:* For the year ended June 30, 2005, the City's required and actual pension cost was \$49,509. The annual required contribution percentage was determined as a part of the Initial Actuarial Valuation on January 31, 2002, using the entry age normal cost method. Significant actuarial assumptions used include a net investment rate of return on assets of 8 percent per year compounded annually, projected salary increases of 4.5 percent per year compounded annually due to inflation, and additional projected salary increases ranging from 0 to 4.5 percent per year depending on an age to reflect merit and longevity. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. Any unfunded actuarial liability is amortized by a level percent of payroll contributions over a period of 30 years.

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005**

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**NOTE N - PENSION PLAN (Continued)**

Information trend comparison as required by GASB No. 27 and 25 is as follows:

Fiscal Year Ended June 30	2005	2004	2003
Annual pension cost (APC)	\$ 49,509	\$ 48,147	\$ 27,764
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ 0	\$ 0	0
Valuation Year Ended Dec 31	2005	2004	2003
Actuarial accrued liability (AAL)	N/A	N/A	\$ 899,798
Actuarial value of assets	N/A	N/A	\$ 507,707
Unfunded AAL (UAAL)	N/A	N/A	\$ 392,091
Funded Ratio	N/A	N/A	56%
Covered payroll	N/A	N/A	\$ 506,959
UAAL as a % of covered payroll	N/A	N/A	77%

**DEFINED CONTRIBUTION PENSION UNION AGREEMENT**

The City provides pension benefits for all Teamster employees per the signed union bargaining agreement. For the year ending June 30, 2005, the City made weekly contributions of \$63 - \$69 to a defined contribution plan based on years of service. Contributions for Teamster employees are paid to the Central States Southeast & Southwest Areas Pension Fund. The Teamster employees are not required to contribute to the pension plan. The City does not administer the pension plan for Teamster employees and therefore has no liability beyond its monthly contributions.

**NOTE O - DEFERRED COMPENSATION PLAN**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all government employees that enter into a joinder agreement with the City, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Due to changes in the Internal Revenue Code, the Plan's assets are considered to be the property of the Plan's participants and are no longer subject to the City's general creditors. Because the City relies on a third party for investment and administration of the plan, the 457 plan assets are excluded from the financial statements.

**NOTE P - RESERVED FUND BALANCE**

The City has restricted cash accounts in the General Fund of \$66,715. This reserve constitutes cash that is restricted for specific future use as follows:

Dupee Shaft	\$ 23,425
Main Street Local Pool	37,992
Perry House	262
Civic Flowers	1,756
Parks Round up Contribution	2,998
Sister City	136
Maasto Hiihto	146
<b>TOTAL</b>	<b>\$ 66,715</b>

The fund balance of \$1,732 in the Debt Service Fund is reserved for debt service payments only and the Cemetery Perpetual Care Trust balance of \$152,352 is reserved for the perpetual care payments.

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2005**

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**NOTE Q - DESIGNATED FUND BALANCE**

In 1981, funds of a Community Development Block Grant were used to establish a revolving commercial loan program to assist local businesses who have exhausted other means of obtaining credit. The balance in the General Fund's Main Street Loan Pool of \$37,992 represents the cash balance of the commercial loan program. As of June 30, 2005, there were no outstanding loan balances. The City provides these loans interest free.

**NOTE R - DEFICIT FUND BALANCE**

The general-purpose financial statements for the Major Street Fund, Local Street Fund, and Parking Fund had cumulative fund deficits at June 30, 2005 of \$28,264, \$9,229 and \$3,285, respectively.

**NOTE S - SUBSEQUENT EVENTS**

In the fiscal year 2005-2006, the City will be receiving a grant of \$85,000 and a loan for \$550,000 from the USDA Rural Development for the purchase of two fire trucks, one being an ariel. The City will also be receiving \$155,000 MEDC grant for the redevelopment of the Scott Hotel and an MDOT Enhancement Grant of \$249,000 for the Downtown Streetscape Project. MSHDA NPP monies of \$350,000 for rental rehab will also be received in 2005-2006 by the City. For the fiscal year 2005-2006 the City will be required to have a Single Audit and to fulfill the requirements of GASB 34 if the loan and grant are expended.

On August 2, 2005 the millage rate increased to .795 for a new fire truck.

**NOTE T - RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City continues to carry commercial insurance for property, liability, wrongful acts, crime inland marine, and other risks of loss including worker's compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE U - PRIOR PERIOD ADJUSTMENT**

A prior period adjustment of \$5,000 was recorded in the Downtown Development Authority Fund. The adjustment was necessary to correct an error in the "loan payable" account as of June 30, 2004 and the ending fund balance.

A prior period adjustment of \$2,014 was recorded in the Water Fund. The adjustment was necessary to correct an error in the interest income account as of June 30, 2004.

A prior period adjustment was also made to the CDBG fund of \$62,683 to record grant activity as of June 30, 2004 that had not previously been reported.

**NOTE V - RECLASSIFICATION**

Certain items in the June 2005 financial statements have been reclassified to conform with the current year presentation.

## **SUPPLEMENTAL FINANCIAL INFORMATION**

**CITY OF HANCOCK**  
**GENERAL FUND**  
**BALANCE SHEETS**  
**June 30, 2005**  
**With Comparative Totals at June 30, 2004**

	<u>2005</u>	<u>2004</u>
ASSETS:		
Cash	\$ 93,598	\$ 44,768
Investments	35,753	50,037
Receivables:		
Delinquent taxes	3,878	4,062
Service customers (includes unbilled)	14,595	14,167
Other	27,784	35,909
Due from other funds	319,575	306,175
Due from government units	92,892	133,567
Prepaid expenses	36,036	58,345
Inventory	21,456	6,159
Restricted assets:		
Cash	66,715	66,032
 TOTAL ASSETS	 \$ 712,282	 \$ 719,221
	<hr/>	<hr/>
LIABILITIES:		
Accounts payable	\$ 53,605	\$ 77,900
Accrued expenses	34,374	33,015
Due to other funds	79,949	88,608
 TOTAL LIABILITIES	 167,928	 199,523
	<hr/>	<hr/>
FUND EQUITY:		
Fund balance:		
Unreserved	544,354	519,698
 TOTAL LIABILITIES AND FUND EQUITY	 \$ 712,282	 \$ 719,221
	<hr/>	<hr/>

**CITY OF HANCOCK**  
**GENERAL FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**Year Ended June 30, 2005**  
**With Comparative Actual Amounts for Year Ended June 30, 2004**

	2005			
	Budget	Actual	Variance- Favorable (Unfavorable)	2004
REVENUES:				
Taxes:				
Real property taxes	\$ 782,800	\$ 732,217	\$ (50,583)	\$ 704,172
Personal property taxes	55,707	53,076	(2,631)	52,115
Penalties and interest on tax	2,319	8,069	5,750	5,953
Payments in lieu of tax	17,394	16,725	(669)	17,604
Tax administration fees	30,900	31,373	473	29,372
Total taxes	889,120	841,460	(47,660)	809,216
State and federal:				
Miscellaneous	19,570	-	(19,570)	13,978
Police training	1,392	2,805	1,413	1,769
Fire Truck Grant	-	2,669	2,669	53,248
Sales tax	480,000	483,725	3,725	523,105
Liquor tax	4,200	4,369	169	4,255
Total state and federal	505,162	493,568	(11,594)	596,355
Service fee revenue:				
Vault service	2,319	2,890	571	4,385
Burial open and close	11,596	12,510	914	8,740
Garbage collection	178,500	162,613	(15,887)	165,933
Campground revenue	59,117	61,760	2,643	57,947
Beach rental fees	348	725	377	780
Other charges	101,587	99,135	(2,452)	100,392
Cemetery lots - old & new	7,111	2,250	(4,861)	4,775
Total service fee revenue	360,578	341,883	(18,695)	342,952
Fines, forfeitures and penalties	-	2,310	2,310	30,447
Rentals:				
Interest income	4,682	4,778	96	4,269
Cemetery interest	2,087	378	(1,709)	112
Land rents	464	2,105	1,641	1,100
Office rental	8,836	7,620	(1,216)	7,620
Total rentals	16,069	14,881	(1,188)	13,101

**CITY OF HANCOCK**  
**GENERAL FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
(Continued)  
Year Ended June 30, 2005  
With Comparative Actual Amounts for Year Ended June 30, 2004

	2005			
	Budget	Actual	Variance- Favorable (Unfavorable)	2004
Other revenue:				
Sale of assets	5,000	2,449	(2,551)	51,975
Parks Round-up contributions	232	120	(112)	79
Sand and salt sales	-	585	585	1,317
Cable franchise fee	16,235	18,276	2,041	27,336
Reimbursements	12,000	-	(12,000)	8,296
Licenses and permits	6,180	10,050	3,870	6,820
Miscellaneous	876	5,366	4,490	3,711
Total other revenue	40,523	36,846	(3,677)	99,534
TOTAL REVENUES	1,811,452	1,730,948	(80,504)	1,891,605
EXPENDITURES:				
General government administration:				
Legislative	11,869	14,755	(2,886)	12,533
City Manager	91,474	88,101	3,373	81,962
Planning and professional services	8,642	6,062	2,580	4,599
Clerk	60,241	55,416	4,825	44,104
Treasurer	66,896	49,906	16,990	42,245
Attorney	9,277	3,440	5,837	5,746
Assessor	22,538	24,771	(2,233)	24,524
Elections	10,360	12,068	(1,708)	2,067
Accounting and computer services	14,779	13,585	1,194	15,065
Board of Review	1,408	711	697	883
Buildings and grounds	22,300	22,845	(545)	24,752
Cemetery	31,384	25,671	5,713	26,075
Total general government administration	351,168	317,331	33,837	284,555
Public safety:				
Police	534,801	561,367	(26,566)	535,675
Fire	64,958	63,288	1,670	120,297
Protective inspections	13,000	12,722	278	13,183
Total public safety	612,759	637,377	(24,618)	669,155

**CITY OF HANCOCK**  
**GENERAL FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
(Continued)  
Year Ended June 30, 2005  
With Comparative Actual Amounts for Year Ended June 30, 2004

	2005			
	Budget	Actual	Variance- Favorable (Unfavorable)	2004
Public works:				
Department of public works	72,800	95,825	(23,025)	107,204
Winter maintenance	2,995	1,574	1,421	2,092
Equipment rental - street lighting	62,967	73,695	(10,728)	71,116
Sidewalks and curbs	9,451	1,011	8,440	13,932
Total public works	148,213	172,105	(23,892)	194,344
Sanitation:				
Garbage collection	153,788	148,593	5,195	138,353
Landfill	107,776	93,424	14,352	90,512
Spring and fall cleanup	27,623	34,021	(6,398)	36,233
Total sanitation	289,187	276,038	13,149	265,098
Culture and recreation:				
Parks	35,934	42,657	(6,723)	55,016
Water front development	541	139	402	-
Beach	14,693	8,816	5,877	10,024
Campground	54,245	50,403	3,842	49,115
Ski trails	8,701	4,417	4,284	11,101
Skating rinks	6,842	7,460	(618)	7,665
Total culture and recreation	120,956	113,892	7,064	132,921
Debt service	19,849	20,480	(631)	20,480
Inventory sand/calcium	44,544	-	44,544	-
Other:				
Community promotion	27,022	35,963	(8,941)	29,556
Insurance	33,990	35,270	(1,280)	35,269
Total other	61,012	71,233	(10,221)	64,825
TOTAL EXPENDITURES	1,647,688	1,608,456	39,232	1,631,378
EXCESS OF REVENUES OVER EXPENDITURES	163,764	122,492	(41,272)	260,227



**CITY OF HANCOCK**  
**GENERAL FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

(Continued)

Year Ended June 30, 2005

With Comparative Actual Amounts for Year Ended June 30, 2004

	2005			
	Budget	Actual	Variance- Favorable (Unfavorable)	2004
OTHER FINANCING SOURCES (USES):				
Operating transfers out	(97,836)	(97,836)	-	(121,250)
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 65,928</u>	<u>24,656</u>	<u>\$ (41,272)</u>	<u>138,977</u>
FUND BALANCE, BEGINNING OF YEAR		519,698		380,721
FUND BALANCE, END OF YEAR		<u>\$ 544,354</u>		<u>\$ 519,698</u>

## CITY OF HANCOCK

## SPECIAL REVENUE FUNDS

## COMBINING BALANCE SHEETS

**June 30, 2005**

**With Comparative Totals at June 30, 2004**

	Major Street	Local Street	Community Development		CDBG MSC-97-657 HO	Elevation Street TIF	Totals	
			Block	Grant			2005	2004
ASSETS:								
Current Assets:								
Cash	\$ 32,972	\$ 33,122	\$ 440	\$ 440	\$ 52	\$ 20,474	\$ 87,060	\$ 104,037
Prepaid expenses	-	-	-	-	-	-	-	6,867
Delinquent taxes	-	-	-	-	-	45	45	45
Due from other governmental units	36,514	52,462	-	-	-	-	88,976	106,377
Due from other funds	-	11,641	-	-	-	39,000	50,641	84,013
Total current assets	69,486	97,225	440	440	52	59,519	226,722	301,339
LIABILITIES:								
Current liabilities:								
Accounts payable	\$ 6,033	\$ 1,332	\$ -	\$ -	-	-	7,365	\$ 7,267
Accrued wages payable	1,682	4,138	-	-	-	-	5,820	8,079
Due to other funds	90,034	100,985	-	-	-	-	191,019	146,038
Total current liabilities	97,749	106,455	-	-	-	-	204,204	161,384
FUND EQUITY:								
Fund balances	(28,263)	(9,230)	440	440	52	59,519	22,518	139,955
TOTAL LIABILITIES AND FUND EQUITY	\$ 69,486	\$ 97,225	\$ 440	\$ 440	\$ 52	\$ 59,519	\$ 226,722	\$ 301,339

**CITY OF HANCOCK**  
**SPECIAL REVENUE FUNDS**  
**COMBINING STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**

June 30, 2005  
 With Comparative Totals for Year Ended June 30, 2004

	Major Street	Local	Street	Community Development Block Grant	MSC-97-657 HO	CDBG	Elevation Street TIF	Totals					
								2005	2004				
REVENUES:													
Taxes	\$	-	\$	83,859	\$	-	\$	20,237	\$	104,096	\$	119,364	
State and federal		468,519		167,842		360,000		36,767		1,033,128		806,753	
Interest revenue		491		345		-		-		836		400	
Other revenue		-		-		15,207		5,621		20,881		111,394	
TOTAL REVENUES		469,010		252,046		375,207		42,388		1,158,941		1,037,911	
EXPENDITURES:													
General government administration		33,790		6,589		-		-		17,714		58,093	39,108
Highways and streets:													
Construction		27,930		24,219		-		-		-		52,149	108,771
State trunkline maintenance		226,836		-		-		-		-		226,836	194,208
Routine maintenance		40,396		123,279		-		-		-		163,675	120,076
Traffic services		3,377		3,588		-		-		-		6,965	11,226
Snow and ice control		154,823		200,338		-		-		-		355,161	335,519
Sweeping and flushing		1,279		1,528		-		-		-		2,807	2,130
State grant expenditures		-		-		382,019		108,009		-		490,028	326,685
TOTAL EXPENDITURES		488,431		359,541		382,019		108,009		17,714		1,355,714	1,137,723
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES		(19,421)		(107,495)		(6,812)		(65,621)		2,576		(196,773)	(99,812)
OTHER FINANCING SOURCES (USES):													
Operating transfers in		-		99,601		-		-		-		99,601	119,675
Operating transfers out		(20,265)		-		-		-		-		(20,265)	(19,675)
TOTAL OTHER FINANCING SOURCES (USES)		(20,265)		99,601		-		-		-		79,336	100,000
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES		(39,686)		(7,894)		(6,812)		(65,621)		2,576		(117,437)	188
FUND BALANCE(DEFICIT), BEGINNING OF YEAR		11,423		(1,336)		7,252		65,673		56,943		139,955	139,767
FUND BALANCE(DEFICIT), END OF YEAR	\$	(28,263)	\$	(9,230)	\$	440	\$	52	\$	59,519	\$	22,518	\$ 139,955

**CITY OF HANCOCK**  
**MAJOR STREET FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**Year Ended June 30, 2005**  
**With Comparative Actual Amounts for Year Ended June 30, 2004**

	2005			
	Budget	Actual	Variance- Favorable (Unfavorable)	2004
REVENUES:				
State and federal	\$ 436,800	\$ 468,519	\$ 31,719	\$ 442,529
Interest revenue	1,160	491	(669)	272
TOTAL REVENUES	437,960	469,010	31,050	442,801
EXPENDITURES:				
General government administration	17,573	33,790	(16,217)	21,447
Highways and streets:				
Construction	42,393	27,930	14,463	23,947
State trunkline maintenance	195,506	226,836	(31,330)	194,208
Routine maintenance	34,199	40,396	(6,197)	25,509
Traffic services	2,612	3,377	(765)	5,855
Snow and ice control	101,207	154,823	(53,616)	143,007
Sweeping and flushing	7,112	1,279	5,833	1,471
Total highways and streets	383,029	454,641	(71,612)	393,997
TOTAL EXPENDITURES	400,602	488,431	(87,829)	415,444
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	37,358	(19,421)	(56,779)	27,357
OTHER FINANCING SOURCES (USES):				
Operating transfers out	(20,265)	(20,265)	-	(19,675)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 17,093	(39,686)	\$ (56,779)	7,682
FUND BALANCE, BEGINNING OF YEAR		11,423		3,741
FUND BALANCE(DEFICIT), END OF YEAR		\$ (28,263)		\$ 11,423

**CITY OF HANCOCK**  
**LOCAL STREET FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**Year Ended June 30, 2005**  
**With Comparative Actual Amounts for Year Ended June 30, 2004**

	2005			
	Budget	Actual	Variance- Favorable (Unfavorable)	2004
REVENUES:				
Taxes	\$ 69,500	\$ 83,859	\$ 14,359	\$ 99,299
State and federal	168,479	167,842	(637)	162,090
Interest revenue	232	345	113	128
Other revenue	1,160	-	(1,160)	1,935
TOTAL REVENUES	239,371	252,046	12,675	263,452
EXPENDITURES:				
General government administration	5,709	6,589	(880)	6,530
Highways and streets:				
Construction	31,793	24,219	7,574	84,824
Routine maintenance	131,905	123,279	8,626	94,567
Traffic services	1,933	3,588	(1,655)	5,371
Snow and ice control	151,206	200,338	(49,132)	192,512
Sweeping and flushing	10,590	1,528	9,063	659
Total highways and streets	327,427	352,951	(25,524)	377,933
TOTAL EXPENDITURES	333,136	359,541	(26,404)	384,463
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(93,765)	(107,495)	(13,729)	(121,011)
OTHER FINANCING SOURCES (USES):				
Operating transfers in	99,601	99,601	-	119,675
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	\$ 5,836	(7,894)	\$ (13,729)	(1,336)
FUND BALANCE(DEFICIT), BEGINNING OF YEAR		(1,336)		-
FUND BALANCE(DEFICIT), END OF YEAR		\$ (9,230)		\$ (1,336)

**CITY OF HANCOCK**  
**COMMUNITY DEVELOPMENT BLOCK GRANT FUND - M2000-0657 (NPP)**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**Year Ended June 30, 2005**  
**With Comparative Actual Amounts for Year Ended June 30, 2004**

	<u>2005</u>	<u>2004</u>
REVENUES:		
Federal Grant	\$ 360,000	\$ -
Other revenue	15,207	-
	<u>375,207</u>	<u>-</u>
TOTAL REVENUES		
EXPENDITURES:		
State grant expenditures:		
Administration	12,500	(1)
Construction	369,519	-
	<u>382,019</u>	<u>(1)</u>
TOTAL EXPENDITURES		
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(6,812)	1
FUND BALANCE, BEGINNING OF YEAR	7,252	7,251
FUND BALANCE, END OF YEAR	<u>\$ 440</u>	<u>\$ 7,252</u>

**CITY OF HANCOCK**  
**COMMUNITY DEVELOPMENT BLOCK GRANT FUND - M2002-0657 (HO)**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**

**Year Ended June 30, 2005**

**With Comparative Actual Amounts for Year Ended June 30, 2004**

	<u>2005</u>	<u>2004</u>
REVENUES:		
State and federal	\$ 36,767	\$ 202,134
Other revenue	5,621	109,416
	<u>42,388</u>	<u>311,550</u>
TOTAL REVENUES		
EXPENDITURES:		
State grant expenditures:		
Administration	9,247	35,670
Construction	98,762	291,016
	<u>108,009</u>	<u>326,686</u>
TOTAL EXPENDITURES		
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(65,621)	(15,136)
FUND BALANCE, BEGINNING OF YEAR	65,673	80,809
FUND BALANCE, END OF YEAR	<u>\$ 52</u>	<u>\$ 65,673</u>

**CITY OF HANCOCK**  
**ELEVATION STREET TIFA**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**Year Ended June 30, 2005**  
**With Comparative Actual Amounts for Year Ended June 30, 2004**

	2005			
	Budget	Actual	Variance- Favorable (Unfavorable)	2004
REVENUES:				
Taxes	\$ 19,570	\$ 20,237	\$ 667	\$ 20,065
Other revenue	682	53	(629)	43
TOTAL REVENUES	20,252	20,290	38	20,108
EXPENDITURES:				
General government administration	19,950	17,714	2,235	11,131
EXCESS OF REVENUES OVER EXPENDITURES	\$ 302	2,576	\$ 2,273	8,977
FUND BALANCE, BEGINNING OF YEAR		56,943		47,966
FUND BALANCE, END OF YEAR		\$ 59,519		\$ 56,943



**CITY OF HANCOCK**  
**DEBT SERVICE (BUILDING AUTHORITY) FUND**  
**BALANCE SHEETS**

**June 30, 2005**  
**With Comparative Totals at June 30, 2004**

	<u>2005</u>	<u>2004</u>
ASSETS:		
Cash	\$     1,732	\$     7,741
	<u>                    </u>	<u>                    </u>
FUND EQUITY:		
Fund balance:		
Reserved	\$     1,732	\$     7,741
	<u>                    </u>	<u>                    </u>

**CITY OF HANCOCK**  
**DEBT SERVICE (BUILDING AUTHORITY) FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**Year ended June 30, 2005**  
**With Comparative Actual Amounts for Year Ended June 30, 2004**

	2005			
	Budget	Actual	Variance- Favorable (Unfavorable)	2004
REVENUES:				
Rentals:				
Rental Income	\$ 100,694	\$ 99,142	\$ (1,552)	\$ 99,532
Interest income	232	29	(203)	38
TOTAL REVENUES	100,926	99,171	(1,755)	99,570
EXPENDITURES:				
Debt service:				
Bond principal	30,000	30,000	-	29,000
Bond interest and other expense	70,894	69,142	1,752	70,532
Miscellaneous	-	6,038	(6,038)	-
Total debt service	100,894	105,180	(4,286)	99,532
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 32	(6,009)	\$ (6,041)	38
FUND BALANCE, BEGINNING OF YEAR		7,741		7,703
FUND BALANCE, END OF YEAR		\$ 1,732		\$ 7,741

**CITY OF HANCOCK**  
**RESIDENTIAL CAPITAL PROJECTS**  
**BALANCE SHEETS**  
**June 30, 2005**  
**With Comparative Totals at June 30, 2004**

	<u>2005</u>	<u>2004</u>
ASSETS:		
Cash	\$ 19,676	\$ 22,653
Receivables:		
Other	-	29,700
	<u>19,676</u>	<u>52,353</u>
TOTAL ASSETS	<u>\$ 19,676</u>	<u>\$ 52,353</u>
LIABILITIES:		
Current liabilities:		
Due to other funds	\$ -	\$ 46,979
Accounts payable	-	50
	<u>-</u>	<u>47,029</u>
TOTAL LIABILITIES	<u>-</u>	<u>47,029</u>
FUND EQUITY:		
Fund balance:		
Unreserved	19,676	5,324
	<u>19,676</u>	<u>5,324</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 19,676</u>	<u>\$ 52,353</u>

**CITY OF HANCOCK**  
**RESIDENTIAL CAPITAL PROJECTS**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**

Year Ended June 30, 2005

With Comparative Actual Amounts for Year Ended June 30, 2004

	2005			
	Budget	Actual	Variance- Favorable (Unfavorable)	2004
REVENUES:				
Other revenue:				
Lot sales	\$ 55,620	\$ 37,760	\$ (17,860)	\$ 52,612
Other	232	132	(100)	106
TOTAL REVENUES	55,852	37,892	(17,960)	52,718
EXPENDITURES:				
General government administration	-	275	(275)	3,135
Construction	55,812	6,361	49,451	57,595
TOTAL EXPENDITURES	55,812	6,636	49,176	60,730
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	40	31,256	31,216	(8,012)
OTHER FINANCING SOURCES (USES):				
Operating transfers out	-	(16,904)	(16,904)	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 40	14,352	\$ 14,312	(8,012)
FUND BALANCE, BEGINNING OF YEAR		5,324		13,336
FUND BALANCE, END OF YEAR		\$ 19,676		\$ 5,324

**CITY OF HANCOCK**  
**ENTERPRISE FUNDS**  
**COMBINING BALANCE SHEETS**  
**June 30, 2005**  
**With Comparative Totals at June 30, 2004**

	Parking Meter	Transit	Sewer Disposal System	Water Supply System	Totals	
					2005	2004
<b>ASSETS:</b>						
Current Assets:						
Cash	\$ 1,323	\$ 15,619	\$ 41,795	\$ 16,448	\$ 75,185	\$ 58,928
Investments	-	-	24,683	17,500	42,183	42,253
Accounts receivable	80	123	55,431	48,059	103,693	93,949
Due from other governmental units	-	-	-	-	-	13,252
Due from other funds	-	-	-	-	-	23,899
Inventory	-	-	29,344	50,331	79,675	69,476
Prepaid expenses	-	2,251	-	-	2,251	14,370
Total current assets	1,403	17,993	156,655	132,338	302,987	316,127
Restricted assets:						
Investments	-	-	105,286	72,508	177,794	176,141
Cash	-	-	12,877	73,423	86,300	85,573
Total restricted assets	-	-	118,163	145,931	264,094	261,714
Fixed assets:						
Equipment	30,893	-	-	-	30,893	30,893
Utility plant in service	-	89,117	5,787,904	5,442,772	11,319,793	11,289,505
Land and land improvements	-	-	-	238,496	238,496	238,496
Less accumulated depreciation & amortization	(30,893)	(47,929)	(4,345,536)	(3,082,191)	(7,506,549)	(7,284,268)
Total fixed assets	-	41,188	1,442,368	2,599,077	4,082,633	4,274,626
<b>TOTAL ASSETS</b>	<b>\$ 1,403</b>	<b>\$ 59,181</b>	<b>\$ 1,711,784</b>	<b>\$ 2,877,346</b>	<b>\$ 4,649,714</b>	<b>\$ 4,852,467</b>
<b>LIABILITIES:</b>						
Current liabilities:						
Accounts payable	\$ -	\$ 2,538	\$ 4,679	\$ 7,766	\$ 14,983	\$ 6,916
Accrued expenses	547	4,290	1,823	5,361	12,021	10,350
Due to other funds	4,141	20,000	97,603	370,753	492,497	387,790
Due to other governmental units	-	-	44,754	27,177	71,931	58,568
Current maturities on long-term debt	-	-	10,000	16,000	26,000	24,000
Total current liabilities	4,688	26,828	158,859	427,057	617,432	487,624
Long-term liabilities:						
Revenue bonds payable	-	-	85,000	1,609,562	1,694,562	1,720,562
<b>TOTAL LIABILITIES</b>	<b>4,688</b>	<b>26,828</b>	<b>243,859</b>	<b>2,036,619</b>	<b>2,311,994</b>	<b>2,208,186</b>
<b>FUND EQUITY:</b>						
Contributed capital	-	-	1,353,346	563,328	1,916,674	1,923,164
Fund balances	(3,285)	32,353	114,579	277,399	421,046	721,117
<b>TOTAL FUND EQUITY</b>	<b>(3,285)</b>	<b>32,353</b>	<b>1,467,925</b>	<b>840,727</b>	<b>2,337,720</b>	<b>2,644,281</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 1,403</b>	<b>\$ 59,181</b>	<b>\$ 1,711,784</b>	<b>\$ 2,877,346</b>	<b>\$ 4,649,714</b>	<b>\$ 4,852,467</b>

**CITY OF HANCOCK**  
**ENTERPRISE FUNDS**  
**COMBINING STATEMENTS OF REVENUES, EXPENSES, AND CHANGES**  
**IN RETAINED EARNINGS**

June 30, 2005

With Comparative Totals for Year Ended June 30, 2004

	Parking Meter	Transit	Sewer Disposal System	Water Supply System	Totals	
					2005	2004
OPERATING REVENUES:						
Operating revenues:						
Charges for services	\$ 14,392	\$ 20,322	\$ 621,980	\$ 511,488	\$ 1,168,182	\$ 1,199,377
State Grant	-	55,668	-	-	55,668	84,543
Other revenue	-	38,923	-	5,165	44,088	119,783
TOTAL OPERATING REVENUES	14,392	114,913	621,980	516,653	1,267,938	1,403,703
EXPENSES:						
Operating expenditures:						
General government administration:						
General administration	23,226	15,157	32,986	63,236	134,605	144,037
Meter reading	-	-	4,109	-	4,109	3,335
Purchase of water	-	-	-	159,690	159,690	174,259
Operations and maintenance	-	106,289	602,262	306,680	1,015,231	907,717
Depreciation	-	17,639	102,062	102,580	222,281	226,005
TOTAL EXPENSES	23,226	139,085	741,419	632,186	1,535,916	1,455,353
OPERATING INCOME(LOSS)	(8,834)	(24,172)	(119,439)	(115,533)	(267,978)	(51,650)
NON-OPERATING REVENUES (EXPENSES):						
Interest income	13	102	1,461	3,287	4,863	5,904
Interest expense	-	-	(5,250)	(73,600)	(78,850)	(80,093)
Operating transfers in	5,000	13,500	8,452	8,452	35,404	21,250
TOTAL NON-OPERATING REVENUES (EXPENSES)	5,013	13,602	4,663	(61,861)	(38,583)	(52,939)
NET INCOME(LOSS)	(3,821)	(10,570)	(114,776)	(177,394)	(306,561)	(104,589)
RETAINED EARNINGS(DEFICIT), BEGINNING OF YEAR	536	42,923	229,355	448,303	721,117	819,216
ADJUSTMENTS TO FUND EQUITY:						
Prior period adjustments:						
Add depr on F/A acq w/contributed capital	-	-	-	6,490	6,490	6,490
RETAINED EARNINGS(DEFICIT), END OF YEAR	\$ (3,285)	\$ 32,353	\$ 114,579	\$ 277,399	\$ 421,046	\$ 721,117

**CITY OF HANCOCK**  
**ENTERPRISE FUNDS**  
**COMBINING STATEMENTS OF CASH FLOWS**  
**For the Year Ended June 30, 2005**

	Parking Meter	Transit	Sewer Disposal System	Water Supply System	Totals (Memorandum Only)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Operating income (loss)	\$ (8,834)	\$ (24,172)	\$ (119,439)	\$ (115,533)	\$ (267,978)
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation	0	17,639	102,062	102,580	222,281
Operating transfers in (out)	5,000	13,500	8,452	8,452	35,404
(Increase) decrease in accounts receivable	0		(3,360)	(6,384)	(9,744)
Increase (decrease) in due from other funds	0	0	14,289	9,610	23,899
Increase (decrease) in due from other gov't units	0	13,252	0	0	13,252
(Increase) decrease in inventory	0	0	(7,556)	(2,643)	(10,199)
(Increase) decrease in prepaid expenses	604	2,908	4,025	4,582	12,119
Increase (decrease) in accounts payable	(522)	1,387	4,410	2,792	8,067
Increase (decrease) in accrued expenses	(173)	962	4	878	1,671
Increase (decrease) in due to other funds	3,550	(13,692)	26,476	88,373	104,707
Increase (decrease) in due to other gov't units	0	0	17,992	(4,629)	13,363
NET CASH PROVIDED BY OPERATING ACTIVITIES	(375)	11,784	47,355	88,078	146,842
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of investments	0	0	(1,003)	(2,596)	(3,599)
Purchase of equipment	0	0	(27,951)	(2,335)	(30,286)
Interest on investments	13	102	1,461	3,287	4,863
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	13	102	(27,493)	(1,644)	(29,022)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Interest paid on long-term debt	0	0	(5,250)	(73,600)	(78,850)
Repayment of long-term debt	0	0	(10,000)	(14,000)	(24,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	0	0	(15,250)	(87,600)	(102,850)
NET INCREASE (DECREASE) IN CASH	(362)	11,886	4,612	(1,166)	14,970
CASH AT BEGINNING OF YEAR	1,685	3,733	50,060	91,037	146,515
CASH AT END OF YEAR	\$ 1,323	\$ 15,619	\$ 54,672	\$ 89,871	\$ 161,485

**CITY OF HANCOCK**  
**PARKING METER FUND**  
**BALANCE SHEETS**  
**June 30, 2005**  
**With Comparative Totals at June 30, 2004**

	<u>2005</u>	<u>2004</u>
ASSETS:		
Current Assets:		
Cash	\$ 1,323	\$ 1,685
Accounts receivable	80	80
Prepaid expenses	-	604
Fixed assets:		
Equipment	30,893	30,893
Less accumulated depreciation & amortization	(30,893)	(30,893)
 TOTAL ASSETS	 <u>\$ 1,403</u>	 <u>\$ 2,369</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ -	\$ 523
Accrued expenses	547	719
Due to other funds	4,141	591
 TOTAL LIABILITIES	 <u>4,688</u>	 <u>1,833</u>
FUND EQUITY:		
Retained earnings	(3,285)	536
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$ 1,403</u>	 <u>\$ 2,369</u>



**CITY OF HANCOCK**  
**PARKING METER FUND**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS**  
**BUDGET AND ACTUAL**  
**Year Ended June 30, 2005**  
**With Comparative Actual Amounts for Year Ended June 30, 2004**

	2005			
	Budget	Actual	Variance- Favorable (Unfavorable)	2004
OPERATING REVENUES:				
Charges for services:				
Collections, permits, fines, etc	\$ 19,100	\$ 14,392	\$ (4,708)	\$ 16,564
EXPENSES:				
General government administration	18,741	23,226	(4,485)	19,049
OPERATING INCOME(LOSS)	359	(8,834)	(9,193)	(2,485)
NON-OPERATING REVENUES (EXPENSES):				
Interest income	-	13	13	12
Operating transfers in	5,000	5,000	-	6,750
TOTAL NON-OPERATING REVENUES (EXPENSES)	5,000	5,013	13	6,762
NET INCOME(LOSS)	\$ 5,359	(3,821)	\$ (9,180)	4,277
RETAINED EARNINGS(DEFICIT), BEGINNING OF YEAR		536		(3,741)
RETAINED EARNINGS(DEFICIT), END OF YEAR		\$ (3,285)		\$ 536

**CITY OF HANCOCK**  
**PARKING METER FUND**  
**COMPARATIVE STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2005**  
**With Comparative Actual Amounts for Year Ended June 30, 2004**

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ (8,834)	\$ (2,485)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	0	0
Operating transfers in (out)	5,000	6,750
(Increase) decrease in prepaid expenses	604	(604)
Increase (decrease) in accounts payable	(522)	(622)
Increase (decrease) in accrued expenses	(173)	(751)
Increase (decrease) in due to other funds	3,550	(1,969)
Increase (decrease) in due to other governmental units	0	0
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>(375)</u>	<u>319</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	<u>13</u>	<u>12</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>13</u>	<u>12</u>
NET INCREASE (DECREASE) IN CASH	(362)	331
CASH AT BEGINNING OF YEAR	<u>1,685</u>	<u>1,354</u>
CASH AT END OF YEAR	<u>\$ 1,323</u>	<u>\$ 1,685</u>

**CITY OF HANCOCK**  
**SEWER DISPOSAL SYSTEM FUND**  
**BALANCE SHEETS**  
**June 30, 2005**  
**With Comparative Totals at June 30, 2004**

	<u>2005</u>	<u>2004</u>
ASSETS:		
Current Assets:		
Cash	\$ 41,795	\$ 37,246
Investments	24,683	24,654
Accounts receivable	55,431	52,071
Due from other funds	-	14,289
Inventory	29,344	21,788
Prepaid expenses	-	4,025
Restricted assets:		
Investments	105,286	104,312
Cash - bond reserves	6,555	6,505
Cash - redemption fund	6,322	6,309
Fixed assets:		
Utility plant in service	5,787,904	5,759,952
Less accumulated depreciation & amortization	(4,345,536)	(4,243,474)
 TOTAL ASSETS	 <u>\$ 1,711,784</u>	 <u>\$ 1,787,677</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 4,679	\$ 268
Accrued expenses	1,823	1,819
Due to other funds	97,603	71,127
Due to other governmental units	44,754	26,762
Current maturities on long-term debt	10,000	10,000
Long-term liabilities:		
Revenue bonds payable	85,000	95,000
 TOTAL LIABILITIES	 <u>243,859</u>	 <u>204,976</u>
FUND EQUITY:		
Contributed capital	1,353,346	1,353,346
Retained earnings	114,579	229,355
 TOTAL FUND EQUITY	 <u>1,467,925</u>	 <u>1,582,701</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$ 1,711,784</u>	 <u>\$ 1,787,677</u>

**CITY OF HANCOCK**  
**SEWER DISPOSAL SYSTEM FUND**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS**  
**BUDGET AND ACTUAL**  
**Year Ended June 30, 2005**  
**With Comparative Actual Amounts for Year Ended June 30, 2004**

	2005			
	Budget	Actual	Variance- Favorable (Unfavorable)	2004
OPERATING REVENUES:				
Charges for services	\$ 645,138	\$ 621,980	\$ (23,158)	\$ 644,352
Other revenue	116	-	(116)	70,735
TOTAL OPERATING REVENUES	645,254	621,980	(23,274)	715,087
EXPENSES:				
General government administration:				
General administration	33,386	32,986	400	30,970
Meter reading	3,630	4,109	(479)	3,335
Total general government administration	37,016	37,095	(79)	34,305
Operations and maintenance	109,971	136,462	(26,491)	101,067
City share of Portage Lake Water & Sewage Authority plant expenditures	484,100	465,800	18,299	454,035
Depreciation	-	102,062	(102,062)	103,575
TOTAL EXPENSES	631,087	741,419	(110,333)	692,982
OPERATING INCOME (LOSS)	14,167	(119,439)	(133,607)	22,105
NON-OPERATING REVENUES (EXPENSES):				
Interest income	4,000	1,461	(2,539)	3,523
Interest expense	(15,250)	(5,250)	10,000	(5,750)
Operating transfers in	-	8,452	8,452	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	(11,250)	4,663	15,913	(2,227)
NET INCOME (LOSS)	\$ 2,917	(114,776)	\$ (117,694)	19,878
RETAINED EARNINGS, BEGINNING OF YEAR		229,355		209,477
RETAINED EARNINGS, END OF YEAR		\$ 114,579		\$ 229,355

**CITY OF HANCOCK**  
**SEWER DISPOSAL SYSTEM FUND**  
**COMPARATIVE STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2005**  
**With Comparative Actual Amounts for Year Ended June 30, 2004**

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ (119,439)	\$ 22,104
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	102,062	103,575
Transfers from other funds	8,452	0
(Increase) decrease in accounts receivable	(3,360)	(3,998)
(Increase) decrease in due from other funds	14,289	(14,289)
(Increase) decrease in inventory	(7,556)	518
(Increase) decrease in prepaid expenses	4,025	(1,150)
Increase (decrease) in accounts payable	4,410	(1,540)
Increase (decrease) in accrued expenses	4	793
Increase (decrease) in due to other funds	26,476	20,271
Increase (decrease) in due to other governmental units	17,992	(87,946)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>47,355</u>	<u>38,338</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(1,003)	(3,107)
Purchase of equipment	(27,952)	(12,183)
Interest on investments	1,461	3,523
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(27,494)</u>	<u>(11,767)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest paid on long-term debt	(5,250)	(5,750)
Repayment of long-term debt	(10,000)	(10,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>(15,250)</u>	<u>(15,750)</u>
NET INCREASE (DECREASE) IN CASH	4,611	10,821
CASH AT BEGINNING OF YEAR	<u>50,060</u>	<u>39,239</u>
CASH AT END OF YEAR	<u>\$ 54,671</u>	<u>\$ 50,060</u>

**CITY OF HANCOCK**  
**WATER SUPPLY SYSTEM FUND**  
**BALANCE SHEETS**  
**June 30, 2005**  
**With Comparative Totals at June 30, 2004**

	<u>2005</u>	<u>2004</u>
ASSETS:		
Current Assets:		
Cash	\$ 16,448	\$ 16,264
Investments	17,500	17,599
Accounts receivable	48,059	41,675
Due from other funds	-	9,610
Inventory	50,331	47,688
Prepaid expenses	-	4,582
Restricted assets:		
Investments	72,508	71,829
Cash - bond reserves	73,423	72,759
Fixed assets:		
Utility plant in service	5,442,772	5,440,436
Land and land improvements	238,496	238,496
Less accumulated depreciation & amortization	(3,082,191)	(2,979,612)
 TOTAL ASSETS	 <u>\$ 2,877,346</u>	 <u>\$ 2,981,326</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 7,766	\$ 4,974
Accrued expenses	5,361	4,483
Due to other funds	370,753	282,380
Due to other governmental units	27,177	31,806
Current maturities on long-term debt	16,000	14,000
Long-term liabilities:		
Revenue bonds payable	1,609,562	1,625,562
 TOTAL LIABILITIES	 <u>2,036,619</u>	 <u>1,963,205</u>
FUND EQUITY:		
Contributed capital	563,328	569,818
Retained earnings	277,399	448,303
 TOTAL FUND EQUITY	 <u>840,723</u>	 <u>1,018,121</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$ 2,877,346</u>	 <u>\$ 2,981,326</u>

**CITY OF HANCOCK**  
**WATER SUPPLY SYSTEM FUND**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS**  
**BUDGET AND ACTUAL**  
**Year Ended June 30, 2005**  
**With Comparative Actual Amounts for Year Ended June 30, 2004**

	2005			
	Budget	Actual	Variance- Favorable (Unfavorable)	2004
OPERATING REVENUES:				
Charges for services	\$ 553,798	\$ 511,488	\$ (42,310)	\$ 523,310
Other revenue	1,160	5,165	4,005	643
TOTAL OPERATING REVENUES	554,958	516,653	(38,305)	523,953
EXPENSES:				
General government administration	64,731	63,236	1,495	61,202
Purchase of water	190,000	159,690	30,310	174,259
Operations and maintenance	203,887	306,680	(102,793)	235,681
Depreciation	-	102,580	(102,580)	105,041
TOTAL EXPENSES	458,618	632,186	(173,568)	576,183
OPERATING INCOME(LOSS)	96,340	(115,533)	(211,873)	(52,230)
NON-OPERATING REVENUES (EXPENSES):				
Interest income	3,827	3,287	(540)	2,337
Interest expense	(88,073)	(73,600)	14,473	(74,343)
Operating transfers in	-	8,452	8,452	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	(84,246)	(61,861)	22,385	(72,006)
NET INCOME(LOSS)	\$ 12,094	(177,394)	\$ (189,488)	(124,236)
RETAINED EARNINGS, BEGINNING OF YEAR		448,303		566,049
ADJUSTMENTS TO FUND EQUITY:				
Add depr on F/A acq w/contributed capital		6,490		6,490
RETAINED EARNINGS, END OF YEAR		\$ 277,399		\$ 448,303

**CITY OF HANCOCK**  
**WATER SUPPLY SYSTEM FUND**  
**COMPARATIVE STATEMENT OF CASH FLOWS**

**For the Year Ended June 30, 2005**

**With Comparative Actual Amounts for Year Ended June 30, 2004**

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ (115,533)	\$ (52,230)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	102,580	105,041
Transfers from other funds	8,452	0
(Increase) decrease in accounts receivable	(6,384)	(3,230)
(Increase) decrease in due from other funds	9,610	(9,610)
(Increase) decrease in prepaid expenses	4,582	(3,932)
(Increase) decrease in inventory	(2,643)	34,483
Increase (decrease) in accounts payable	2,792	(46,398)
Increase (decrease) in accrued expenses	878	2,884
Increase (decrease) in due to other funds	88,373	58,770
Increase (decrease) in due to other governmental units	(4,629)	31,806
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>88,078</u>	<u>117,584</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(2,335)	(25,246)
Purchase of investments	(2,596)	(2,996)
Interest on investments	3,287	4,350
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(1,644)</u>	<u>(23,892)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest paid on long-term debt	(73,600)	(74,343)
Repayment of long-term debt	(14,000)	(19,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>(87,600)</u>	<u>(93,343)</u>
NET INCREASE (DECREASE) IN CASH	(1,166)	349
CASH AT BEGINNING OF YEAR	<u>91,037</u>	<u>90,688</u>
CASH AT END OF YEAR	<u>\$ 89,871</u>	<u>\$ 91,037</u>



**CITY OF HANCOCK**  
**TRANSIT FUND**  
**BALANCE SHEETS**  
**June 30, 2005**

	<u>2005</u>	<u>2004</u>
ASSETS:		
Current Assets:		
Cash	\$ 15,619	\$ 3,733
Accounts receivable	123	123
Due from other governmental units	-	13,252
Prepaid expenses	2,251	5,159
Fixed assets:		
Utility plant in service	89,117	89,117
Less accumulated depreciation & amortization	(47,929)	(30,289)
TOTAL ASSETS	<u>\$ 59,181</u>	<u>\$ 81,095</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 2,538	\$ 1,151
Accrued expenses	4,290	3,329
Due to other funds	20,000	33,692
TOTAL LIABILITIES	<u>26,828</u>	<u>38,172</u>
FUND EQUITY:		
Retained earnings	32,353	42,923
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 59,181</u>	<u>\$ 81,095</u>

**CITY OF HANCOCK**  
**TRANSIT FUND**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS**  
**BUDGET AND ACTUAL**  
**Year Ended June 30, 2005**

	2005			
	Budget	Actual	Variance- Favorable (Unfavorable)	2004
OPERATING REVENUES:				
Charges for services	\$ 17,000	\$ 20,322	\$ 3,322	\$ 15,151
State Grant	57,096	55,668	(1,428)	84,543
Other revenue	42,453	38,923	(3,530)	48,405
TOTAL OPERATING REVENUES	116,549	114,913	(1,636)	148,099
EXPENSES:				
General government administration	28,478	15,157	13,321	32,816
Operations and maintenance	100,137	106,289	(6,152)	116,934
Depreciation	-	17,639	(17,639)	17,389
TOTAL EXPENSES	128,615	139,085	(10,470)	167,139
OPERATING INCOME(LOSS)	(12,066)	(24,172)	(12,106)	(19,040)
NON-OPERATING REVENUES (EXPENSES):				
Interest income	50	102	52	32
Operating transfers in	13,500	13,500	-	14,500
TOTAL NON-OPERATING REVENUES (EXPENSES)	13,550	13,602	52	14,532
NET INCOME(LOSS)	\$ 1,484	(10,570)	\$ (12,054)	(4,508)
RETAINED EARNINGS, BEGINNING OF YEAR		42,923		47,431
RETAINED EARNINGS, END OF YEAR		\$ 32,353		\$ 42,923

**CITY OF HANCOCK**  
**TRANSIT FUND**  
**COMPARATIVE STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2005**

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ (24,172)	\$ (19,040)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	17,639	17,389
Operating transfers in (out)	13,500	14,500
(Increase) decrease in accounts receivable	0	(123)
(Increase) decrease in due from other governmental units	13,252	(13,252)
(Increase) decrease in prepaid expenses	2,908	(2,226)
Increase (decrease) in accounts payable	1,387	(7,936)
Increase (decrease) in accrued expenses	962	(72)
Increase (decrease) in due to other funds	(13,692)	16,608
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>11,784</u>	<u>5,848</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	0	(3,000)
Interest on investments	<u>102</u>	<u>32</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>102</u>	<u>(2,968)</u>
NET INCREASE (DECREASE) IN CASH	11,886	2,880
CASH AT BEGINNING OF YEAR	<u>3,733</u>	<u>853</u>
CASH AT END OF YEAR	<u>\$ 15,619</u>	<u>\$ 3,733</u>

**CITY OF HANCOCK**  
**INTERNAL SERVICE FUNDS**  
**COMBINING BALANCE SHEETS**  
**June 30, 2005**  
**With Comparative Totals at June 30, 2004**

	Employee Benefit	Motor Vehicle	Totals	
			2005	2004
<b>ASSETS:</b>				
Current Assets:				
Cash	\$ 13,487	\$ 15,198	\$ 28,685	\$ 16,583
Accounts receivable	24,508	150	24,658	10,715
Due from other funds	88,798	304,451	393,249	256,544
Inventory	-	13,354	13,354	12,432
Prepaid insurance	49,899	19,128	69,027	60,682
Total current assets	176,692	352,281	528,973	356,956
Fixed assets:				
Equipment	-	1,832,614	1,832,614	1,665,817
Less accumulated depreciation & amortization	-	(1,539,384)	(1,539,384)	(1,450,624)
Total fixed assets	-	293,230	293,230	215,193
Restricted assets:				
Cash	5,535	-	5,535	5,452
<b>TOTAL ASSETS</b>	<b>\$ 182,227</b>	<b>\$ 645,511</b>	<b>\$ 827,738</b>	<b>\$ 577,601</b>
<b>LIABILITIES:</b>				
Current liabilities:				
Accounts payable	\$ 7,290	\$ 11,986	\$ 19,276	\$ 31,747
Accrued sick and vacation	152,158	-	152,158	150,165
Accrued wages payable	12,606	1,864	14,470	10,000
Current maturities on long-term debt	-	72,227	72,227	95,418
Total current liabilities	172,054	86,077	258,131	287,330
Long-term liabilities:				
Notes payable	-	189,699	189,699	45,011
<b>TOTAL LIABILITIES</b>	<b>172,054</b>	<b>275,776</b>	<b>447,830</b>	<b>332,341</b>
<b>FUND EQUITY:</b>				
Retained earnings	10,173	369,735	379,908	245,260
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 182,227</b>	<b>\$ 645,511</b>	<b>\$ 827,738</b>	<b>\$ 577,601</b>

**CITY OF HANCOCK**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**Year Ended June 30, 2005**  
**With Comparative Totals for Year Ended June 30, 2005**

	Employee Benefit	Motor Vehicle	Totals	
			2005	2004
OPERATING REVENUES:				
Operating revenues:				
Charges for services	\$ 879,992	\$ 538,878	\$ 1,418,870	\$ 1,308,451
Other revenue	-	1,043	1,043	3,737
TOTAL OPERATING REVENUES	879,992	539,921	1,419,913	1,312,188
EXPENSES:				
Operating expenditures:				
General government administration	42	28,290	28,332	28,522
Garage maintenance	-	105,346	105,346	100,011
Operations and maintenance	-	223,700	223,700	199,953
Depreciation	-	97,259	97,259	68,757
Benefit payments:				
Payroll taxes	98,796	-	98,796	112,006
Retirement plan expense	105,865	-	105,865	95,965
Holiday pay	34,688	-	34,688	33,312
Sick pay/personal leave	42,575	-	42,575	39,566
Vacation pay	71,795	-	71,795	74,179
Workers' compensation insurance	53,700	-	53,700	40,882
Hospitalization insurance	389,801	-	389,801	400,958
Employee life insurance	6,838	-	6,838	7,331
Longevity pay	15,817	-	15,817	15,200
Employee picnic	600	-	600	600
Other	4,111	-	4,111	3,616
TOTAL EXPENSES	824,628	454,595	1,279,223	1,220,858
OPERATING INCOME	55,364	85,326	140,690	91,330
NON-OPERATING REVENUES (EXPENSES):				
Gain on sale of assets	-	350	350	-
Interest income	370	188	558	465
Interest expense	-	(6,950)	(6,950)	(11,690)
TOTAL NON-OPERATING REVENUES (EXPENSES)	370	(6,412)	(6,042)	(11,225)
NET INCOME	55,734	78,914	134,648	80,105
RETAINED EARNINGS(DEFICIT), BEGINNING OF YEAR	(45,561)	290,821	245,260	165,155
RETAINED EARNINGS, END OF YEAR	\$ 10,173	\$ 369,735	\$ 379,908	\$ 245,260

**CITY OF HANCOCK**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENTS OF CASH FLOWS**  
**For the Year Ended June 30, 2005**

	Employee Benefit	Motor Vehicle	Totals (Memorandum Only)
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss)	\$ 55,364	\$ 85,326	\$ 140,690
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	0	97,259	97,259
(Increase) decrease in accounts receivable	(15,620)	1,677	(13,943)
(Increase) decrease in due from other funds	(23,974)	(112,731)	(136,705)
(Increase) decrease in inventory	0	(921)	(921)
(Increase) decrease in prepaid expenses	(10,720)	2,375	(8,345)
Increase (decrease) in accounts payable	(10,429)	(2,042)	(12,471)
Increase (decrease) in accrued expenses	5,830	633	6,463
NET CASH PROVIDED BY OPERATING ACTIVITIES	451	71,576	72,027
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of equipment	0	(175,297)	(175,297)
Interest on investments	370	188	558
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	370	(175,109)	(174,739)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from long-term debt	0	161,496	161,496
Gain on sale of assets	0	350	350
Interest paid on long-term debt	0	(6,950)	(6,950)
Repayment of long-term debt	0	(39,999)	(39,999)
NET CASH PROVIDED BY FINANCING ACTIVITIES	0	114,897	114,897
NET INCREASE (DECREASE) IN CASH	821	11,364	12,185
CASH AT BEGINNING OF YEAR	18,201	3,834	22,035
CASH AT END OF YEAR	\$ 19,022	\$ 15,198	\$ 34,220

**CITY OF HANCOCK**  
**EMPLOYEE BENEFIT FUND**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS**  
**BUDGET AND ACTUAL**  
**Year Ended June 30, 2005**  
**With Comparative Actual Amounts for Year Ended June 30, 2004**

	2005			
	Budget	Actual	Variance- Favorable (Unfavorable)	2004
OPERATING REVENUES:				
Charges for services	\$ 926,760	\$ 879,992	\$ (46,768)	\$ 776,112
EXPENSES:				
General government administration	1,508	42	1,466	931
Benefit payments:				
Payroll taxes	101,096	98,796	2,300	112,006
Retirement plan expense	91,500	105,865	(14,365)	95,965
Holiday pay	32,500	34,688	(2,188)	33,312
Sick pay/personal leave	36,000	42,575	(6,575)	39,566
Vacation pay	68,000	71,795	(3,795)	74,179
Workers' compensation insurance	40,000	53,700	(13,700)	40,882
Hospitalization insurance	457,875	389,801	68,074	400,958
Employee life insurance	3,247	6,838	(3,591)	7,331
Longevity pay	15,800	15,817	(17)	15,200
Employee picnic	696	600	96	600
Other	4,174	4,111	63	3,616
Total benefit payments	850,888	824,586	26,302	823,615
TOTAL EXPENSES	852,396	824,628	27,768	824,546
OPERATING INCOME(LOSS)	74,364	55,364	(19,000)	(48,434)
NON-OPERATING REVENUES (EXPENSES):				
Interest income	812	370	(442)	378
NET INCOME(LOSS)	\$ 75,176	55,734	\$ (19,442)	(48,056)
RETAINED EARNINGS(DEFICIT), BEGINNING OF YEAR		(45,561)		2,495
RETAINED EARNINGS(DEFICIT), END OF YEAR		\$ 10,173		\$ (45,561)

**CITY OF HANCOCK**  
**MOTOR VEHICLE FUND**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS**  
**BUDGET AND ACTUAL**  
**Year Ended June 30, 2005**  
**With Comparative Actual Amounts for Year Ended June 30, 2004**

	2005			
	Budget	Actual	Variance- Favorable (Unfavorable)	2004
OPERATING REVENUES:				
Charges for services	\$ 389,400	\$ 538,878	\$ 149,478	\$ 532,339
Other revenue	580	1,043	463	3,737
TOTAL OPERATING REVENUES	389,980	539,921	149,941	536,076
EXPENSES:				
General government administration	23,077	28,290	(5,213)	27,591
Garage maintenance	100,989	105,346	(4,357)	100,011
Operations and maintenance	196,542	223,700	(27,158)	199,953
Depreciation	-	97,259	(97,259)	68,757
TOTAL EXPENSES	320,608	454,595	(133,987)	396,312
OPERATING INCOME	69,372	85,326	15,954	139,764
NON-OPERATING REVENUES (EXPENSES):				
Gain on sale of assets	3,000	350	(2,650)	-
Interest income	928	188	(740)	87
Interest expense	(70,000)	(6,950)	63,050	(11,690)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(66,072)	(6,412)	59,660	(11,603)
NET INCOME	\$ 3,300	78,914	\$ 75,614	128,161
RETAINED EARNINGS, BEGINNING OF YEAR		290,821		162,660
RETAINED EARNINGS, END OF YEAR		\$ 369,735		\$ 290,821



**CITY OF HANCOCK**  
**FIDUCIARY FUNDS**  
**COMBINING BALANCE SHEETS**  
**June 30, 2005**  
**With Comparative Totals at June 30, 2004**

	Non-Expendable Trust Fund	Agency Funds		Totals (Memorandum Only)	
	Cemetery Perpetual Care Trust	Agency	Payroll	2005	2004
ASSETS:					
Cash and equivalents	\$ 68,452	\$ 1,614	\$ 352	\$ 70,418	\$ 68,711
Investments	83,901	-	-	83,901	83,244
<b>TOTAL ASSETS</b>	<b>\$ 152,353</b>	<b>\$ 1,614</b>	<b>\$ 352</b>	<b>\$ 154,319</b>	<b>\$ 151,955</b>
LIABILITIES:					
Accounts payable	\$ -	\$ -	\$ 352	\$ 352	\$ 28
Due to other governmental units	-	1,614	-	1,614	1,572
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>1,614</b>	<b>352</b>	<b>1,966</b>	<b>1,600</b>
FUND EQUITY:					
Fund balance:					
Reserved	152,353	-	-	152,353	150,355
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 152,353</b>	<b>\$ 1,614</b>	<b>\$ 352</b>	<b>\$ 154,319</b>	<b>\$ 151,955</b>

**CITY OF HANCOCK**  
**CEMETERY PERPETUAL CARE TRUST FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN RETAINED EARNINGS**  
**BUDGET AND ACTUAL**  
**Year Ended June 30, 2005**  
**With Comparative Actual Amounts for Year Ended June 30, 2004**

	2005			
	Budget	Actual	Variance- Favorable (Unfavorable)	2004
OPERATING REVENUES:				
Other revenue	\$ 4,870	\$ 325	\$ (4,545)	\$ 1,425
EXPENSES:				
General government administration	232	(1)	233	-
OPERATING INCOME	4,638	326	(4,312)	1,425
NON-OPERATING REVENUES (EXPENSES):				
Interest income	1,739	1,672	(67)	2,897
NET INCOME	<u>\$ 6,377</u>	<u>1,998</u>	<u>\$ (4,379)</u>	<u>4,322</u>
FUND BALANCE, BEGINNING OF YEAR		150,355		146,033
FUND BALANCE, END OF YEAR		<u>\$ 152,353</u>		<u>\$ 150,355</u>

**CITY OF HANCOCK**  
**AGENCY FUNDS**  
**COMBINING STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES**  
**For the Year Ended June 30, 2005**

	Balance June 30 2005	Additions	Deletions	Balance June 30 2005
<b>AGENCY FUND</b>				
<b>ASSETS:</b>				
Cash	\$ 1,572	\$ -	\$ (42)	\$ 1,614
<b>LIABILITIES:</b>				
Due to other governmental units	\$ 1,572	\$ -	\$ (42)	\$ 1,614
<b>PAYROLL</b>				
<b>ASSETS:</b>				
Cash	\$ 28	\$ -	\$ (324)	\$ 352
<b>LIABILITIES:</b>				
Accounts payable	\$ 28	\$ -	\$ (324)	\$ 352
<b>TOTAL - ALL AGENCY FUNDS</b>				
<b>ASSETS:</b>				
Cash	\$ 1,600	\$ -	\$ (366)	\$ 1,966
<b>LIABILITIES:</b>				
Accounts payable	\$ 28	\$ -	\$ (324)	\$ 352
Due to other governmental units	1,572	-	(42)	1,614
<b>TOTAL LIABILITIES</b>	\$ 1,600	\$ -	\$ (366)	\$ 1,966



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### COMMENTS AND RECOMMENDATIONS LETTER

Honorable Mayor and Members of the City Council  
City of Hancock  
Hancock, Michigan

In connection with our audit of the financial statements of the City of Hancock, for the year ended June 30, 2005, the following concerns regarding the accounting records, procedures, and internal accounting control structure came to our attention and are presented for your consideration.

Our comments are based upon conditions noted during our audit and are not intended to be all inclusive. These comments are submitted as constructive suggestions to assist you in strengthening controls and procedures.

#### ACCOUNTING FOR GRANT REVENUES (8<sup>th</sup> year of repeat)

The City contracts out the administrative work on numerous grants that it receives. On those grants that have been contracted out, the City has not been recording the activity of those grants in its accounting system. We recommend that the City arrange to receive regular financial reports from the contract administrator so that the activity can be recorded in the City's books.

#### INSURED DEPOSITS

We noted approximately seventy-two percent (72%) of the City's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). We recommend that deposits be extended to various financial institutions to decrease the risk of loss to the City.

#### GASB 34 (3<sup>rd</sup> year of repeat)

Although the Local Audit and Finance Division of the Michigan Department of Treasury has allowed a reporting exception to the implementation of Governmental Accounting Standards Board Statement No. 34 (GASB 34) for various Michigan local cities and municipalities, we recommend the City adopt the major changes from GASB 34 to comply with GAAP. This requires the City to issue government-wide financial statements based on full accrual accounting. This change will also require the City to place a value on all capital assets, calculate depreciation, record offsetting long-term debt, and report information regarding the net value of assets on the government-wide financial statements. It was noted that the City will be required to have a Single Audit in the next fiscal year therefore, requiring GASB 34 to implemented.

## SEWER/WATER BILLING

During the audit it came to our attention that there are numerous meters in need of repair. We recommend that efforts be made to repair these to ensure that accounts are being properly billed and the City is not incurring a loss of revenue. It was noted that the City has taken steps in to repair meters.

## PUBLIC ACT 621 OF 1978 BUDGET REQUIREMENTS

Comparing actual to budgeted expenditures shows that over expenditures have occurred. P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. This Act requires that a City must amend its budget when it becomes apparent that the City's actual revenues will deviate from those budgeted, or if the City's expenditures will exceed the amounts appropriated.

During the year ended June 30, 2005, the City incurred expenditures in certain budgetary categories which were in excess of the amounts appropriated as follows:

Description	Total <u>Appropriations</u>	Amount of <u>Expenditures</u>	Budget <u>Variances</u>
<b>GENERAL FUND</b>			
Legislative	\$ 11,869	\$ 14,755	\$ (2,886)
Assessor	\$ 22,538	\$ 24,771	\$ (2,233)
Elections	\$ 10,360	\$ 12,068	\$ (1,708)
Buildings/grounds	\$ 22,300	\$ 22,845	\$ (545)
Public Safety-Police	\$ 534,801	\$ 561,367	\$ (26,566)
Public Works-DPW	\$ 72,800	\$ 95,825	\$ (23,025)
Public Works-Equip rental/street light	\$ 62,967	\$ 73,695	\$ (10,728)
Sanitation-Spring and fall cleanup	\$ 27,623	\$ 34,021	\$ (6,398)
Recreation-Parks	\$ 35,934	\$ 42,657	\$ (6,723)
Recreation-Skating Rinks	\$ 6,842	\$ 7,460	\$ (618)
Debt Service	\$ 19,849	\$ 20,480	\$ (631)
Other-Community promotion	\$ 27,022	\$ 35,963	\$ (8,941)
Other-Insurance	\$ 33,990	\$ 35,270	\$ (1,280)
<b>MAJOR STREET FUND</b>			
General government administration	\$ 17,573	\$ 33,790	\$ (16,217)
State trunkline maintenance	\$ 195,506	\$ 226,836	\$ (31,330)
Routine maintenance	\$ 34,199	\$ 40,396	\$ (6,197)
Traffic services	\$ 2,612	\$ 3,377	\$ (765)
Snow and ice control	\$ 101,207	\$ 154,823	\$ (53,616)
<b>LOCAL STREET FUND</b>			
General government administration	\$ 5,709	\$ 6,589	\$ (880)
Traffic services	\$ 1,933	\$ 3,588	\$ (1,655)
Snow and ice control	\$ 151,206	\$ 200,338	\$ (49,132)
CDBG FUNDS	\$ 105,060	\$ 490,028	\$ (384,968)
<b>RESIDENTIAL CAPITAL PROJECTS</b>			
General government administration	\$ 0	\$ 274	\$ (274)

We recommend that the Council monitor the budget more closely and make amendments as necessary.

## WATER BOND REQUIREMENTS

The Series 1997 and 1998 Water Supply System Revenue Bonds as issued by the USDA, requires the City to quarterly transfers be made in the sum of at least \$2,480 per quarter, with the annual requirement equal to \$9,920 until there is accumulated in such fund the aggregate sum of \$131,700. The amount required as of June 30, 2005 is \$69,440. As of June 30, 2005, the bank balance was \$60,677, equal to a shortage of \$8,763. The City should review the bond debt requirement schedules and transfer the funds to the restricted account to eliminate the deficit.

## PUBLIC ACT 275 OF 1980

The City had a fund balance deficit as of June 30, 2005 in the Major Street Fund, the Local Street Fund and the Parking Fund in the amount of \$28,264, \$9,230 and \$3,285 respectively.

We recommend that the Council monitor the fund balances of all funds more closely and take steps to avoid such deficits as necessary. In accordance with Public Act 275 of 1980, the City must formulate and file a deficit elimination plan (DEP) with the State Treasurer to correct the deficit situation. This DEP must contain: (1) a copy of current trial balances showing the deficit eliminated; (2) copies of Council resolutions approving operating transfers used to eliminate the deficit; and (3) a projected budget, approved by the Council, itemizing the revenues, expenditures and the changes in the fund balance.

We would like to thank the administrative staff for the excellent cooperation we received during our audit. We appreciate the opportunity to present these comments and recommendations for your consideration and we are prepared to discuss them at your convenience.

This report is intended solely for the use of management and the governmental regulatory agencies and should not be used for any other purposes.

*Bruce A. Rukhila, CPA, PC*

Certified Public Accountants

October 18, 2005